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REPORT OF THE ECONOMIC AND SOCIAL COUNCIL

Impact of the evolution of East-West relations on global growth and development

Report of the Secretary-General

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I. INTRODUCTION

1. The General Assembly, in its resolution 46/202 of 20 December 1991, requested the Secretary-General to review the impact of the recent evolution of East-West relations on the growth of the world economy, in particular on the economic growth and development of the developing countries, as well as on international economic cooperation. In fulfilling this mandate, the Secretary-General took into account his report (E/1991/82) to the Special High-level Meeting of the Economic and Social Council on the subject, held at Geneva on 4 and 5 July 1991, and the relevant part of the report of the Council, containing the views of Member States and the concluding statement of the Chairman of that Meeting. 1/

2. The present report focuses on the state of the multiple economic transformation processes in the transition economies; on recent trends in East-West economic relations; and on assessing the specific implications for developing countries of the evolution in the East. 2/ It concludes with some observations on avenues to facilitate the delivery of assistance, thereby easing the burden of the transition, and to reduce the potential for adverse implications of the transformations and the changes in the East-West environment for developing countries.

II. SUMMARY

3. The initial euphoria about the potential for economic, political and social changes in the eastern part of Europe has markedly subsided. This is an unexpected development, given that the transition is now on the policy agenda in all old and new countries throughout the eastern part of Europe. However, a number of the newer transition economies, including Albania and some of the former Soviet and Yugoslav republics, are, in fact, developing countries, and the optimistic expectations that the global community may have had of the ability of the transition economies to commence a new, self-sustainable growth path would not have applied to these countries.

4. The root cause of the swing in public perceptions about the course of the historic turn-around in the East lies in the multiple, and in some cases seemingly unmanageable, transition problems. The daunting obstacles that have surfaced so far are many. But those encountered to date can be organized in three groups: forging ahead with building a workable democratic political coalition and building the basic institutions of the market; gaining sustainable socio-political support among broad layers of the population for a painful transition to market-based economic systems; and designing the proper strategy and tactics for bringing about the transformation of the rigid central planning systems into viable market-based economic entities.

5. There are opportunities for international cooperation and coordination that have not yet been fully exploited and could be mobilized to ameliorate global economic concertation, through the multilateral economic organizations

in place. Much also remains to be done to ensure that maximum support for the transition agenda is built up, while minimizing the adverse impacts on developing countries of domestic policies and the assistance being provided to the transition economies. Opportunities have also arisen for reconsidering the scope and depth of the core policies pursued by the regional institutions in Europe, now that at least some of the formerly planned economies of the East are being drawn into their orbit.

6. A clear strategy on how best to redraw the European integration schemes with the Eastern partners as full members or, at least, fully equivalent cooperants, has yet to be charted. This is evident from the nature of the so-called "Europe" association agreements and the new trade and cooperation agreements that have recently been signed. It is also clear from the continuing difficulties in designing the most effective combination of measures to deliver assistance to the transition economies, from both the international and regional institutions and from the many national Governments that have pledged various types of bilateral assistance.

7. For most developing countries, the events in the East and the changing environment for East-West cooperation have not so far had any substantial negative impact, either in terms of heightened trade competition, greater obstacles to maintaining migration flows, or a deflection of foreign direct investment. There has been little evidence to date of any sizable diversion towards the transition economies of official development assistance (ODA) or more general support from the multilateral financial institutions previously earmarked for developing countries. Yet the situation could change in the future.

8. Some countries have succeeded in gaining new export markets in the transition economies. This has not only been the case for developing-country exporters of fuels and raw materials, as supplies from the former Soviet Union to Eastern Europe have markedly contracted since 1989; export gains have also been made by the more dynamic developing countries that have found ways to accommodate to the rapid change in the East at a time of domestic economic bottlenecks and lingering external payment problems. Some developing countries, notably exporters of non-ferrous ores and metals, have however experienced some price erosion because of the decline in the East's import demand and domestic absorption.

9. For the vast majority of developing countries, there is unlikely to be any significantly negative impact of the transformations in the East as these processes evolve, unless there were to be an utter calamity in the fortunes of the transition economies. However, the discriminatory access to Western European markets that some transition economies have recently obtained, and the facilities that may be widened in the near term to assist the transition economies in gaining access to those markets, could harm the competitive position of some developing countries.

10. Whereas the bulk of the developing countries, on balance, may in time gain, through commercial and financial relations from the transitions under

way in the East, this has clearly not occurred for those developing countries that maintained close economic relations with the former Council for Mutual Economic Assistance (CMEA) or with key members of that regional economic organization. In the first instance, the transitions have palpably affected the prospects of the three developing countries (Cuba, Mongolia and Viet Nam) that were full members of CMEA; likewise for some of the eight developing countries that had a cooperant status with CMEA. 3/ Some other developing countries that traditionally maintained intensive cooperation ties with key CMEA members, the former Soviet Union in particular, have seen their trade and payment opportunities markedly curtailed. Several of those partner countries have accumulated sizable surpluses in some trade accounts, notably vis-à-vis the former Soviet Union, the size and repayment of which are currently matters of dispute. 4/

11. While traditional development concerns remain a key issue for the global community, there has been a noticeable shift in the list and order of priorities for international attention. This is increasingly evident, for example, in the case of the multilateral financial institutions to which the international community has entrusted the task of formulating, implementing and monitoring an important component of its assistance commitments. Illustrative of that shift is the fact that, in more academic analyses, the multiple issues of the transition have to some degree replaced the attention previously devoted to the pressing, in some cases chronic, problems of the developing countries.

III. THE STATE OF ECONOMIC TRANSFORMATION

12. The transition economies at this juncture include all former planned economies, old and new countries, of the eastern part of Europe. Though the transformation now encompasses virtually all aspects of the societies concerned, and the broad objectives of the societal remaking envisioned there are quite similar, the stage of the transformation process at which these countries currently find themselves and the pace at which they are pursuing it differ considerably from country to country.

13. Whereas the overarching problem of economies in transition prior to the breakup of the Soviet and Yugoslav federations and the shift in emphasis in Albania was essentially one of restructuring fairly developed industrial countries, the agenda now facing the international community has become much more complex. Some countries, such as Albania and several of the successor Soviet and Yugoslav republics, are, in fact, at the earlier stages of industrialization. The level of development in some countries is so low that they might even qualify for concessional assistance.

The nature of the transformation 5/

14. The transition economies aim at instituting a market economy with far-reaching integration into the world economy. This policy goal calls for the timely and orderly introduction of a long sequence of policy measures

that, in time, will completely revamp the economic, political and social frameworks inherited from the period of central planning, when communist precepts were applied to societal organization, production and distribution. The restructuring of these economies is not limited to attitudes and institutions, however. It must also encompass economic policies and incentives. Reaching a vibrant market-based economy, in the first instance, requires macroeconomic stabilization, soon followed by, or preferably dovetailed with, broad-based structural reforms. Those steps should be accompanied by changes in the way in which economic agents operate and individuals shoulder the risk of their own actions and the impact of the behaviour of others.

15. The stabilization policies have all focused primarily, and in some cases rather narrowly, on demand-management policies and associated measures. The initial package consists of a number of distinct policy steps, including price liberalization for all goods and services, with only minor exceptions (such as key utilities and housing rents); nearly complete elimination of all kinds of subsidies; strengthening the government budget, largely by curtailing expenditures; controlling money supply by means, inter alia, of high real interest rates; regulating wage behaviour through punitive fiscal measures; devaluing the exchange rate to levels that were recently observed in open markets, in some cases leading to a marked undervaluation of the currency to bolster exports; and opening up these economies to foreign competition.

16. Such actions were expected to have been accompanied, perhaps with a lag of three to nine months, by policy measures designed to tackle the more structural aspects of the transformation of the Eastern economies. Crucial here would be the creation of the institutions that are so vital to the smooth functioning of the market economy and changing the status, behaviour and ownership of State-owned enterprises.

17. Although communism sought to create a "new man", the failures of communist society suggest the fallacy of policies based on an ideology aimed at enforcing dramatic change in human behaviour. The same danger would now seem to lie in attempts to bring about a dramatic shift in the attitude of individuals who formerly strove to transfer the risks of their behaviour to society in general and the State in particular. Expectations at the beginning of the transition that many of the gains made under socialism would on the whole be preserved have been dashed. Initial guarantees for instituting far-reaching social safety nets, preferably with support from the international community, have moreover had to be retracted under force of circumstance.

18. With the withering of the State in these countries, changed attitudes towards risk-taking in general and entrepreneurship in particular are only slowly emerging. The degree to which previously instituted guarantees for workers and employees in State-owned enterprises are entrenched has a more than trivial impact on privatization policies on the widening of the distribution of wealth, and on the level of tolerance, by society at large, of foreign direct investment, with all its attendant inflows of foreign managers, and unaccustomed ways of doing business and enforcing labour discipline.

19. In spite of the numerous obstacles to entrepreneurship in the transition economies, since 1989 there has been a dramatic rise in private-sector activities. Although its precise contribution to aggregate output is as yet poorly measured, the private sector has been growing very rapidly and, at least in some countries, now accounts for a significant proportion of overall output. Although these new initiatives are undoubtedly helpful in blunting some of the rough edges of the transformation and indeed in pulling the process forward, many are of such a nature that they are unlikely to be self-sustaining, and thus eventually lead to productive investments in new activities or to new formats for the execution of standard activities. That, after all, is the kind of productive entrepreneurship that is sorely needed in the transition economies. 6/

20. Whereas the private sector's buoyancy has benefited from the privatization policies pursued in some of the transition economies, notably from so-called small-scale privatization, it can be argued that the emphasis of policy makers on selling off large State-owned enterprises or giving away shares in those firms with a view to bolstering economic efficiency has partly been misplaced. Insufficient attention appears to have been given to options whereby the State, and the political process more generally, can be taken out of the allocation of resources, for instance through the corporatization and commercialization of many State-owned enterprises and the negotiation of leases and management contracts. 7/

21. Unleashing the initiative of individuals was expected to be followed rather quickly with a burst of private economic activity, from both domestic and foreign entrepreneurs, that would have imparted a substantial growth impulse to the transition economies. The transformation itself was moreover expected to lead relatively quickly to a resumption of sustainable growth, propped up by the buoyancy of State-owned enterprises that would initiate restructuring efforts themselves in response to macroeconomic stringency. Few commentators expected the socio-economic trough associated with the transition policies to be as deep and durable as it has been thus far throughout the East.

22. There are several other reasons why the transition towards market-based economic systems in the majority of transition economies has not been as smooth as many decision makers and observers had imagined. Some stem from faulty or naïve internal policy-making, usually founded on the presumption that a workable coalition in favour of the transformation had been reached, that such a consensus would be self-sustainable and that deregulation would autonomously and spontaneously bolster private initiative, thus strengthening the incipient market economy from within. Other factors are unanticipated events abroad and unfulfilled expectations regarding the depth, scale and scope of available international assistance, including resources to ease the debt-service burdens that, in some cases, have constrained the room for policy manoeuvre and complicated the implementation of agreed-upon policies. In some cases, promised assistance has not been forthcoming and this in itself has tended to affect adversely the political will regarding economic transformation. Yet a third set includes the interaction between domestic and external policy decisions and associated events. This interlinkage has

notably affected the degree to which the transition economies have been able to switch their trade to Western markets.

23. In internal policy-making, two important factors stand out. The first is the speed, comprehensiveness and sequencing of transition policies. The second, within that policy agenda, is the critical role that has been allotted to opening up the transition economies. In addition, three external events must be mentioned: (1) the precipitate destruction of CMEA as a forum for intraregional cooperation; (2) the faster than expected switch away from the transferable-rouble regimes, partly on account of German unification, which itself led to a sharp cutback in demand for goods from the rest of the East; and (3) the impact of several adverse measures enacted in the new spirit of international cooperation in the period following the end of the cold war, such as the sanctions against Iraq since 1991 and the recent sanctions against successor Yugoslavia. 8/

The external dimensions of economic transition

24. Resolved to move steadily towards market-based decision-making, all transition countries have committed themselves to reducing significantly barriers to external commerce and other forms of interaction abroad. Domestic markets in those countries had traditionally been shielded by unconventional means. Those obstacles to market-based interactions have been or are being replaced by more conventional institutions and commercial instruments. For example, quantitative and other non-tariff restrictions have either been eliminated or replaced by ad valorem tariffs. These countries have also been revising their customs regimes and most are bent on reducing tariffs to the sensible minimum. However, much remains to be done in countries where the basic political commitments towards enacting transition continue to be contested.

25. The broad objectives of installing pluralistic political systems and market-based economic decision-making in the Eastern countries, with assistance from national, regional and international organizations, present opportunities and challenges to the global community. Because much of the traditional trade of those economies was not based on economic considerations, such as comparative-cost advantages, a radical restructuring of those economies must lead to an equally radical reconfiguration of their external economic ties. As foreign competition begins to streamline the allocation of resources in the Eastern economies, significant trade creation - or at least a radical restructuring of traditional trading patterns - should result, if only because of the differences in productivity levels and the determination of policy makers of the transition economies to catch up with developed countries as soon as feasible.

26. The liberalization of the transition economies will eventually result in merging those economies much more profoundly into the global economy. This will occur through various channels. One will be the conventional exchange of trade and services and the mobility of production factors, notably capital flows into those countries. Another will be much broader normal participation

in the agenda of the global economic organizations. Finally, because of the disappearance of CMEA and the gradual rapprochement of the transition economies to the European Economic Community (EEC), the opening up of these countries will inevitably entail institutional adjustments and policy reorientation in the regional organizations, particularly on the European continent.

27. Regularization of the position of these countries in international economic organizations, including the General Agreement on Tariffs and Trade (GATT), the International Monetary Fund (IMF) and the World Bank, was on the transition agenda from the very beginning. For those countries that were members of these organizations, this has manifested itself in a strengthening of their cooperation and participation as full, equal members. Others have sought regular membership in these organizations. Thus all countries of Eastern Europe and the Baltic States are now members of IMF and the World Bank; the other successor Soviet republics have recently become members. 9/

28. Except Albania and Bulgaria, all countries of Eastern Europe are Contracting Parties to GATT and participate actively in it. Negotiations about Bulgaria's full accession, which was first requested in 1986, have received a new impetus. Albania submitted its request for observer status in June 1992 10/ and obtained it on 19 July 1992. 11/ Countries that had less than the equivalent of full status in GATT when they had planned economies, such as Czechoslovakia, 12/ Hungary, Poland and Romania, have by now regularized their status or are in the process of renegotiating it.

29. The former Soviet Union acquired observer status in early 1990 and, prior to its disintegration, was eager to join GATT as a full Contracting Party. Armenia, Estonia, Latvia, Lithuania, Republic of Moldova, Turkmenistan and Ukraine have submitted their requests since June 1992 13/ and some have already been granted observer status. 14/ The other successor Soviet republics have not yet made specific requests for either accession to or observer status in GATT, but they are expected to do so shortly. A number of those republics had already been obtaining assistance from GATT in preparing their requests for observer status. 15/

30. The truly near-universal nature of the above-mentioned organizations offers the international community opportunities to come effectively to grips in a more coherent and consistent manner with the salient economic problems that confront it. A better functioning world economy, based on improved coordination and broadly agreed-upon development priorities, should play a critical role in this regard. For now, however, far-reaching concertation of policies remains a distant goal.

Prospects for economic recovery

31. Whereas the prospects for economic recovery in some transition economies are improving at this stage, the early signs of a mild upturn in the economy in some Central European countries, or a slowing down of the contraction in others, should be treated cautiously. They may be harbingers of steadier

improvements to come, but these are not likely to materialize in the next year or so. Constraints on external payments in nearly all transition economies and continuing difficulties in controlling inflation in most suggest that these countries will on the whole continue their protracted austerity, holding absorption to comparatively low levels.

32. Elsewhere, however, and this includes most of the successor Soviet republics, the problems ahead are more daunting. The prospect for the near term is for a further sharp contraction in levels of economic activity and political uncertainty about crucial markers of the reform programmes. Until a basic consensus on transformation can be found and sustained, a sharp reversal in economic fortunes is unlikely to crystallize.

33. Although the tasks ahead are quite complex, all economies in transition deserve considerable international assistance. One reason is that a reversal of economic fortunes in the East, hence a resumption of growth, albeit from a much lowered base, will stabilize the political and social situations in the transition economies, and by extension on the European continent as a whole. Moreover, a solid economic recovery in the East will impart a positive growth impulse to the world economy as a whole and will open up opportunities for, inter alia, exports from developing countries. It is, therefore, important that available assistance resources be targeted in the proper way and in harmony, as far as possible, with the agreed-upon transformation policies in the Eastern countries. Finally, the transition economies that are developing countries in all but name deserve international assistance on the same grounds as those underpinning the traditional rationale for development assistance from the more developed countries of the world.

IV. RECENT DEVELOPMENTS IN EAST-WEST ECONOMIC RELATIONS

34. The framework for East-West cooperation, particularly on the European continent, has recently undergone fundamental changes, not only because of the events in the eastern part of Europe, but also because of autonomous changes in attitudes towards European integration in the western part of Europe, notably the conclusion of the single market by 1993.

The collapse of the Council for Mutual Economic Assistance and the transferable-rouble regimes

35. The forty-sixth session of CMEA was convened at Budapest on 28 June 1991 and it was decided to disband the organization within 90 days, 16/ but CMEA had, in fact, ceased to function in early 1990. Efforts to replace it by another regional organization, for which various formats were debated throughout 1990 and early 1991, simply foundered. In the absence of realistic successor regimes, intraregional trade turnover 17/ among the five European CMEA members (without the German Democratic Republic) had been sharply compressed, from some $37 billion in 1989 to $29 billion in 1990 and $21 billion in 1991. 18/ That compression did not stem solely from the vexing problems of trade with the former Soviet Union, however. Indeed, the current

value of trade turnover of the five CMEA members with the latter declined from some $29 billion in 1989 to $17 billion in 1991 and among the five countries from $8 billion in 1989 to just over $3 billion in 1991.

36. It has indeed proved to be very difficult to replace the transferable-rouble arrangements with so-called world-market conditions, under which, essentially: goods and services are negotiated by microeconomic agents on their own account; market-clearing prices of a sort, given that there are not yet genuinely transparent markets in the countries in transition, are the terms at which exchanges take place; imbalances are settled in convertible currency on a current basis or periodically (in the case of clearing); and the usances of world trading, notably on payment conditions (that is, immediate payment for raw materials and fuels, and 90 to 120 days supplier credit for many manufactured goods) need to be observed rather closely.

37. Though moving to such an environment for intragroup trade would, in the end, have brought about greater rationality in the transition economies, in the short to medium term the switch-over was bound to be accompanied by several adverse developments. Four are of paramount importance. First of all, a modification of prevailing terms of trade occurred. This entailed a sharp deterioration for Eastern Europe and a sizable gain for the exporters of fuels and raw materials, particularly the former Soviet Union. 19/

38. Second, new institutions for the settlement of external transactions, including clearing facilities, export guarantees, export financing and rediscounting, among the countries in transition are required to replace the facilities previously anchored to the transferable rouble. Until these can be established, the prevailing institutional vacuum is likely to complicate the expeditious execution of commercial transactions.

39. Third, demand and supply schedules have changed because old and new independent agents have begun to act in their own interest; 20/ they could not realistically have been expected to emulate the previous behaviour of ministerial bureaucrats. Under the circumstances, especially in the short run, the demand of the Eastern European countries for shipments from within the CMEA area could have been anticipated to change more radically than the supply, given that not all countries were reforming at the same pace and that there existed considerable asymmetry between the trading patterns of the Soviet Union and the rest of Eastern Europe. Because of disarray in the Soviet economy, the shifts in demand and supply behaviour did not quite materialize in the form anticipated, as demand for CMEA manufactures literally collapsed, while supplies of energy and raw materials shrank. 21/

40. Finally, arguably the most important development arose from a surge in the demand for convertible currency, particularly in the trade-dependent countries, for both transaction and precautionary reasons. To finance any emerging imbalances that may occur with new agents conducting trade, adequate reserves are required. The transaction demand for convertible currency is bound to rise because it is prudent for a country to hold reserves equivalent to about three months' worth of imports; private trading and related

transactions in transition economies, previously all conducted under special bilateral clearing conditions, must now be financed; and because of the asymmetry in export structures, countries dependent on imports of fuels and raw materials and exports of finished engineering goods need to grant supplier credit for most of their net exports of manufactures, but must pay cash for their net imports of fuels and most raw materials. Even if alternative financing can be arranged, the borrower must, on balance, absorb any borrowing cost differential.

41. The collapse of intragroup trade cannot be ascribed solely to the disappearance of CMEA, the abrupt foundering of the transferable-rouble regimes and failure to explore in earnest a cooperative strategy that would have helped underpin and foster the transition processes. Outside events also impinged upon the outcome, notably the sharp deterioration in the Soviet economy and the collapse of German demand for Eastern manufactures.

42. The collapse of internal markets, particularly in the former Soviet Union but also in Yugoslavia, has introduced a range of problems similar to those encountered with the sudden discontinuation of the transferable-rouble regimes. Although some of this inter-republican trade, particularly in the former Soviet Union, may have had an economic rationale, the vast bulk emanated from administrative decision-making, in some cases constrained by military, political and other security considerations. The introduction of markets in the new countries will not only entail a vast restructuring of their economies and trade links, but it will also have to be undertaken in a virtual vacuum in the payments infrastructure.

Diversion of trade to Western European markets

43. The collapse of intragroup trade has only to some extent been offset by the spectacular rise in trade with market economies, particularly Western Europe in 1990-1991. It bears stressing, however, that there is considerable uncertainty about trade developments, as the statistical systems of many transition economies leave much to be desired. 22/

44. The declines in trade volumes have been truly dramatic in some cases (see table 1), but such cut-backs have by no means been confined to intragroup trade. Indeed trade turnover of the European CMEA countries (without the German Democratic Republic) with developed market economies increased from $97 billion in 1989 to $106 billion in 1990, but then receded to $105 billion in 1991 (the latter figure including all-German trade). For developing countries, excluding the former CMEA members, however, the decline was much more substantial: from $39 billion in 1989 to $37 billion in 1990 and $21 billion in 1991.

Table 1. Eastern Europe and the Soviet Union: value and growth of trade, 1989-1991

(Billions of dollars and percentages)

Country	Exports				Imports			
	Value	Percentages			Value	Percentages		
	1990	1989	1990	1991	1990	1989	1990	1991
Bulgaria								
Total	5.2	-12.0	-21.3	-34.2	5.6	-9.9	-23.8	-51.5
Eastern Europe	0.5	-16.6	-38.6	-58.3	0.6	-21.3	-28.2	-61.5
Soviet Union	2.3	-8.2	-31.0	-24.3	2.0	-15.8	-21.7	-39.9
Developed countries	1.2	17.2	-11.1	-36.3	1.9	0.6	-25.9	-59.8
Developing countries	1.1	-35.8	9.7	-47.6	1.0	-8.7	-19.0	-54.4
Czechoslovakia								
Total	10.7	-3.2	-10.5	1.6	11.8	-3.4	0.3	-15.6
Eastern Europe	1.6	-6.6	-33.1	19.0	2.3	-4.1	-11.5	-46.7
Soviet Union	2.4	-13.8	-25.8	-10.1	2.2	-9.0	-26.7	41.8
Developed countries	5.1	10.9	13.4	2.9	5.7	-1.6	28.1	-25.2
Developing countries	1.0	0.1	-10.9	-7.9	0.8	17.0	-11.9	-1.8
Hungary								
Total	9.6	-3.3	-1.3	7.1	8.6	-5.4	-2.7	32.8
Eastern Europe	1.1	-9.7	-31.4	-21.2	1.2	-13.4	-16.9	5.4
Soviet Union	1.9	-11.9	-20.7	-29.1	1.6	-16.7	-15.9	6.9
Developed countries	5.0	5.6	20.6	28.0	4.5	7.7	3.8	53.8
Developing countries	0.9	-6.8	-0.2	7.7	0.9	-22.0	60.9	3.3
Poland								
Total	18.3	0.6	24.7	-18.5	12.6	-0.4	-2.5	24.3
Eastern Europe	2.4	-3.3	-2.1	-52.2	1.3	-9.1	-39.4	-11.2
Soviet Union	3.7	-5.4	4.6	-60.6	2.9	-13.9	6.7	-31.6
Developed countries	8.9	5.3	40.0	13.7	5.7	7.1	-4.7	71.7
Developing countries	1.4	-3.6	3.2	-15.5	0.6	-8.8	-17.1	151.0
Romania								
Total	4.6	-10.0	-43.4	-7.1	6.9	8.8	18.1	-17.6
Eastern Europe	0.4	-14.9	-56.9	-8.8	0.9	-8.1	-1.8	-28.7
Soviet Union	0.7	-11.1	-37.3	30.7	1.1	2.0	-18.7	-8.8
Developed countries	2.4	-3.9	-38.4	-22.8	2.2	1.7	116.7	-9.4
Developing countries	0.9	-15.2	-51.0	-11.9	2.5	29.0	10.1	-32.2

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Table 1 (continued)

Country	Exports				Imports			
	Value	Percentages			Value	Percentages		
	1990	1989	1990	1991	1990	1989	1990	1991
Soviet Union								
Total	59.1	0.4	-5.2	-24.6	65.0	12.0	-0.0	-35.9
Formerly planned	15.3	-8.7	-24.3	-35.0	19.1	-4.5	-10.6	-43.4
Eastern Europe	11.1	-11.1	-26.9	-40.8	15.0	-5.7	-12.1	-51.6
Developed countries	29.2	7.7	12.3	-16.2	34.4	21.1	5.6	-31.0
Developing countries	14.5	2.0	-9.5	-29.0	11.5	26.0	3.8	-35.8
Eastern Europe								
Total	48.4	-4.5	-5.2	-9.6	45.5	-2.7	-2.6	-0.2
Eastern Europe	5.9	-8.4	-26.5	-25.7	6.3	-9.8	-20.8	-28.3
Soviet Union	11.0	-9.8	-19.2	-31.9	9.9	-12.0	-14.9	-8.3
Developed countries	22.5	5.3	11.8	8.1	20.0	3.8	8.8	17.9
Developing countries	5.4	-14.1	-14.8	-16.3	5.9	5.6	1.7	-6.1
Eastern Europe and Soviet Union								
Total	124.0	-1.5	-6.7	-18.0	130.1	4.5	1.3	-22.0
Formerly planned	42.1	-8.6	-23.2	-32.9	43.1	-7.4	-14.2	-34.7
Developed countries	61.1	7.1	-3.9	-5.6	69.0	13.0	2.5	-12.9
Developing countries	20.8	-3.0	-35.0	-24.2	18.0	17.6	-20.7	-22.6

Source: All data are drawn from the common database kept at the Economic Commission for Europe (ECE) which is based on national statistical publications, direct communications to the ECE secretariat from national statistical offices and (for 1991) in part on trade partner data. Both export and import values are expressed f.o.b., except for Hungarian imports which are shown c.i.f. in the national returns. Growth rates are calculated on values expressed in United States dollars. Trade with the East, including most of trade with Eastern Europe and the Soviet Union, in the years prior to 1991 was valued in an adjusted dollar measure reflecting consistent rouble/dollar cross-rates. All trade values for 1991 were converted to dollars at the appropriate national conversion coefficient (usually the commercial rate quoted by national banks). The partner country grouping follows the practice until recently prevalent in the national statistical sources, which differs from the breakdown usually employed in United Nations publications. The former German Democratic Republic is included in the data for 1989-1990, but not in those for 1991 and in comparisons between 1990 and 1991.

45. Because the institutional and organizational infrastructure for managing trade among autonomous agents is as yet very imperfect in the transition economies, developing countries may have to make an extra effort to gain a foothold in Eastern markets. Some of the more advanced developing countries have already succeeded in this endeavour. Developed countries, on the other hand, do have the institutional infrastructure, for example, to grant export credits and export guarantees and are, therefore, more favourably positioned to enter the markets of the transition economies.

46. Taking the trade data as reported by these countries, the geographical orientation of trade has shifted, in some cases quite dramatically (see table 2). The shares of the former CMEA partners have obviously declined considerably, whereas the share of trade with developed market economies has risen sharply and is now on the order of 58 per cent of total trade. In many cases, the shares of developing countries have fallen, usually more for exports from the Eastern countries than for imports to them.

Opportunities for trade with developing countries

47. Traditionally, trade among the centrally planned economies and the developing countries was characterized by considerable asymmetry. 23/ First of all, trade tended to be concentrated in a few favoured developing countries. Flows that were previously earmarked for other than economic reasons will now be discontinued or replaced by flows with trade partners that had previously been relatively ignored. This shift has been affecting most spectacularly trade with the former CMEA members outside of Europe and developing countries that had a cooperant status with CMEA. Table 3 lists estimates of recent changes in the value of exports to and imports from various analytically meaningful developing-country groups: 24/ the three full CMEA members, the eight cooperants, eight countries that maintained intensive ties with key former members of CMEA 25/ and a group of newly industrializing developing countries. 26/

48. Exports from Eastern Europe to those four groups of developing countries in current dollar value declined by 26.2 per cent, and imports by 10.8 per cent; the corresponding data for the former Soviet Union are 41.9 per cent for exports and 43.2 per cent for imports. Because shifts in the terms of trade were substantial in some of those relations, trade volumes must have precipitately shrunk too, and in some cases collapsed virtually to nil.

49. The contraction has been largest for trade with the three former CMEA members, particularly in the case of Eastern Europe, and the eight CMEA cooperants, particularly for the former Soviet Union (see table 3); a good deal of the trade contraction with the cooperants, notably in the cases of Bulgaria and Romania, stems from the embargo on trade with Iraq. It has been much less pronounced for the countries that maintained some close relations with key CMEA members, both for Eastern Europe and the Soviet Union. Whereas exports to the group of newly industrializing countries shrank on average, Eastern Europe's imports increased considerably.

Table 2. Eastern Europe and the Soviet Union: geographical distribution of trade, 1989-1991

(Percentages)

Country	Exports			Imports		
	1989	1990	1991	1989	1990	1991
Bulgaria						
Eastern Europe	12.9	10.1	5.2	12.0	11.3	5.7
Soviet Union	49.3	43.3	49.8	34.0	34.9	43.2
Developed countries	19.6	22.1	23.3	35.4	34.5	32.0
Developing countries	15.8	22.0	17.5	16.4	17.4	16.4
Czechoslovakia						
Eastern Europe	20.1	15.0	13.2	21.9	19.3	7.7
Soviet Union	26.5	22.0	19.4	25.9	18.9	31.8
Developed countries	37.6	47.0	52.0	37.6	48.1	48.9
Developing countries	9.7	9.6	8.7	8.0	7.0	8.2
Hungary						
Eastern Europe	15.8	11.0	5.8	17.1	14.7	6.9
Soviet Union	25.1	20.2	13.4	22.1	19.1	15.3
Developed countries	43.1	52.7	66.7	49.3	52.6	67.8
Developing countries	9.6	9.7	9.7	6.4	10.5	8.2
Poland						
Eastern Europe	16.4	12.9	5.8	16.6	10.3	4.9
Soviet Union	24.4	20.5	11.0	21.4	23.5	14.1
Developed countries	43.2	48.5	73.8	46.5	45.4	68.9
Developing countries	9.0	7.5	7.5	6.0	5.1	10.4
Romania						
Eastern Europe	10.2	7.7	5.7	14.9	12.4	6.9
Soviet Union	14.5	16.1	22.6	22.5	15.5	17.1
Developed countries	47.7	51.9	44.7	17.2	31.6	39.6
Developing countries	23.1	20.1	19.0	39.3	36.7	30.2

Table 2 (continued)

Country	Exports			Imports		
	1989	1990	1991	1989	1990	1991
Soviet Union						
Eastern Europe	24.4	18.8	19.8	26.4	23.2	19.3
Developed countries	41.8	49.5	56.5	50.1	52.9	58.1
Developing countries	25.8	24.6	13.6	17.1	17.7	10.4
Eastern Europe						
Eastern Europe	15.7	12.2	7.6	17.1	13.9	6.3
Soviet Union	26.7	22.8	17.8	24.8	21.7	20.4
Developed countries	39.5	46.6	59.9	39.4	44.0	58.4
Developing countries	12.4	11.1	10.5	12.4	12.9	12.2

Source: See table 1.

50. The data suggest a direct relationship between the transition stage and the exploration of new markets. This dynamism cannot fully be covered by the type of aggregations reported above. It may, therefore, be useful to look at one country as an illustration. In 1991, Poland increased its dollar exports to five dynamic Asian developing countries (Hong Kong, Republic of Korea, Singapore, Taiwan Province of China and Thailand) by 4.3 per cent but its imports from that group grew by a factor of more than 13, albeit from a low level. 27/

51. There will also be other opportunities opening up to some developing countries. For example, some will now be able to enter the Eastern markets, by means, inter alia, of competitive tenders for projects financed through one international agency or another, particularly the World Bank. The vacuum in payment and trading supports in the transition economies may complicate this switch in the short run, however, in fact giving rise to a contraction of trade until the institutional support base for more buoyant and flexible trade financing can be put in place.

52. In the past, the composition of trade tended overwhelmingly to consist of manufactures from the eastern part of Europe in exchange for raw materials from developing countries. Paradoxically, this may be accentuated in the short to medium term as many of the fuel importers in the East will have to find new sources of supply for the marked decline in exports from the former Soviet Union. In time there should be a marked shift to correct for previously unexploited comparative advantages, including those gradually built up by the newly industrializing economies.

Table 3. Eastern Europe and the Soviet Union: trade with selected groups of developing countries, 1990-1991

(Millions of dollars and percentages)

Country	Exports			Imports		
	1990	1991	Growth	1990	1991	Growth
Bulgaria						
CMEA (3)	169.1	6.2	-96.3	180.0	8.2	-95.5
Cooperants	72.2	13.0	-82.0	274.9	0.6	-99.8
Collaborators	243.7	238.1	-2.3	197.0	155.0	-21.3
NIEs	89.5	137.8	53.9	95.2	61.5	-35.4
Czechoslovakia						
CMEA (3)	109.4	18.0	-83.5	79.1	30.3	-61.7
Cooperants	...	...	...	...	...	...
Collaborators	225.9	210.3	-6.9	208.6	79.8	-61.7
NIEs	226.9	113.8	-49.8	185.4	207.8	12.1
Hungary						
CMEA (3)	54.9	29.0	-47.1	17.7	8.4	-52.8
Cooperants	19.6	19.0	-2.8	37.9	35.7	-5.9
Collaborators	376.9	442.9	17.5	240.5	275.1	14.4
NIEs	237.5	253.9	6.9	341.1	387.6	13.6
Poland						
CMEA (3)	17.8	4.3	-76.1	13.7	14.5	5.3
Cooperants	96.3	39.6	-58.9	94.5	13.3	-85.9
Collaborators	351.1	268.5	-23.5	327.5	516.3	57.6
NIEs	545.0	408.2	-25.1	166.8	728.1	336.6
Romania						
CMEA (3)	71.8	1.0	-98.6	71.2	3.4	-95.3
Cooperants	52.5	2.8	-94.7	173.9	4.9	-97.2
Collaborators	285.1	199.7	-29.9	991.0	734.1	-25.9
NIEs	238.7	165.0	-30.9	133.5	151.4	13.3
Soviet Union						
CMEA (3)	3 673.8	1 453.2	-60.4	4 933.6	2 380.6	-51.7
Cooperants	1 411.0	473.0	-66.5	977.1	82.0	-91.6
Collaborators	1 485.0	1 197.1	-19.4	2 219.5	1 753.2	-21.0
NIEs	1 497.5	1 563.8	4.4	1 496.2	1 255.5	-16.1

/...

Table 3 (continued)

Country	Exports 1990	Exports 1991	Exports Growth	Imports 1990	Imports 1991	Imports Growth
Eastern Europe						
CMEA (3)	423.0	58.5	-86.2	361.7	64.8	-82.1
Cooperants	240.6	74.4	-69.1	581.2	54.5	-90.6
Collaborators	1 482.7	1 359.5	-8.3	1 964.6	1 760.3	-10.4
NIEs	1 337.6	1 078.7	-19.4	922.0	1 536.4	66.6
Eastern Europe and Soviet Union						
CMEA (3)	4 096.8	1 511.7	-63.1	5 295.3	2 445.4	-53.8
Cooperants	1 651.6	547.4	-66.9	1 558.3	136.5	-91.2
Collaborators	2 967.7	2 556.6	-13.9	4 184.1	3 513.5	-16.0
NIEs	2 835.1	2 642.5	-6.8	2 418.2	2 791.9	15.5

Source: All data are drawn from the common database kept at ECE, as explained in table 1. For some reporters, notably Czechoslovakia and Romania, only partial data for the groups, except the three CMEA countries, are available. Conversion of the current values was executed at the prevailing exchange rates, except in the case of the former Soviet Union for which the commercial exchange rates were utilized for 1990. This necessarily overstates the decline notably for Bulgaria and Romania, particularly in trade with the CMEA partners because of the problem of converting transferable roubles into dollars; for others the overstatement depends on the implicit exchange rate in any clearing arrangement.

Notes: CMEA (3) refers to Cuba, Mongolia and Viet Nam.

Cooperants are Afghanistan, Angola, Ethiopia, Iraq, Mexico, Mozambique, Nicaragua and Democratic Yemen (now merged with Yemen; for 1990 data for Democratic Yemen and Yemen were aggregated).

Collaborators are Algeria, Cambodia, Egypt, India, Iran (Islamic Republic of), Morocco, Pakistan and Syrian Arab Republic.

NIEs (newly industrializing countries) are Brazil, Hong Kong, Malaysia, Republic of Korea, Singapore, Taiwan Province of China, Thailand, Tunisia and Turkey.

53. The restructuring of external ties on the basis of economic criteria is bound to worsen the terms of trade for the developing countries that received implicit development assistance through special price arrangements. This should benefit developing countries that have not so far been able to penetrate the East's markets on the basis of their comparative advantage.

54. It should be noted, however, that in the short run some exporters of raw materials, including non-ferrous ores and metals, have had to face up to greater competition, as capacities in the East could be sustained only by bolstering export volumes, and this action has exerted a downward pull on world prices. The degree of price erosion was, however, limited for as long as the additional volumes emanated from the smaller Eastern countries.

Lingering payment constraints

55. Current accounts of the transition economies remain fragile in part because of debt obligations, which for some countries are substantial, and a high propensity to import, largely consumer goods. None the less, Czechoslovakia and Poland have thus far been able to sustain their limited domestic convertibility and Hungary has continued to make progress with its trade and foreign-exchange liberalization. Some of the successor Soviet republics, notably Estonia and the Russian Federation, are currently introducing policy measures that should in time enable them also to benefit from limited domestic convertibility. This in turn should facilitate access to those countries' markets for all outsiders, including developing countries.

56. Poland obtained partial debt relief in March 1991 from the Paris Club, but has not yet come to a similar accommodation with the London Club. In any case, the conditions upon which the relief was predicated have not been met and it is, therefore, uncertain whether Poland will in the end be able to reap the benefits granted in 1991. Several other Eastern countries, such as Bulgaria, are technically in default and have obtained some form of debt rescheduling or benefit from tacit agreement that the debt issue will not be pushed by either the official or the commercial creditors. None the less, without substantial debt relief, the issue will need to be addressed fairly soon. Several countries simply cannot hope to service their debts out of current export revenues in the near to medium term.

Institutional changes and global economic cooperation

57. The see-saw changes in the eastern part of Europe and the resulting transformations of the environment for East-West relations, as noted, have opened up several opportunities for enhancing the ways and means of improving the functioning of the global economy. With the opening up of the transition economies and their more active participation in all forms of international economic relations, improved coordination within the global economy through the instruments already in place could be facilitated. It might also create a sufficiently favourable atmosphere for reconfiguring key aspects of the global economic framework, so as better to attune its institutional foundations to ongoing and prospective policy concerns. Many developing countries would benefit from such a better focusing and concertation at the global level.

Institutional changes and regional cooperation

58. Since late 1991, some efforts have been made to revive loose organizational forms of regional cooperation, by means, inter alia, of the so-called Visegrád mechanism, which seeks to bolster economic and other forms of cooperation among Czechoslovakia, Hungary and Poland. Although a decision was reached to implement a free trade zone there, beginning in mid-1992, the commitments made in late 1991 have not so far been fulfilled. In any case, their main aim was to prevent a situation in which the economies in transition would maintain against each other discriminatory barriers egregiously different from those currently in place within the context of EEC or arrangements being made with members of the European Free Trade Association (EFTA).

59. From the very beginning, the transition economies have sought a formal rapprochement with EEC and EFTA. In the cases of the Baltic States, the Eastern European countries, some of the other successor republics of the Soviet Union, and Yugoslavia and its successor republics, the ambition has been full EEC membership in a not too distant future. The Community has resisted making any firm pledge of accelerated membership negotiations for its own reasons and offered instead to work out so-called "Europe" agreements, which give the Eastern countries a special association status.

60. The agreements reached to date involve the establishment of differential trade liberalization for most manufactures, on which EEC will gradually remove its import duties, usually over a five-year period, beginning in 1992. The Eastern signatory will have to reciprocate, usually over a similar period of time, the introduction of the tariff cut-backs being delayed until the second half of the 1990s. This means that the Eastern signatory will gain a relative competitive edge over EEC producers and also over other outside competitors that do not benefit from similarly advantageous tariff regimes. Czechoslovakia, Hungary and Poland have already obtained this status. They have been working out a similar instrument with EFTA members, but only the one with Czechoslovakia has been completed; 28/ those with Hungary and Poland have apparently run into serious snags, owing mainly to disagreements on liberalizing trade in agricultural products, which is, in fact, outside the EFTA mandate. 29/ Negotiations between EEC and some of the other transition economies, notably Bulgaria, are under way. The ongoing efforts to establish free-trade ties between EFTA and the Baltic States, Bulgaria and Romania are expected to be concluded by the end of 1992. 30/

61. The beneficial economic nature of these agreements, as distinct from the political and psychological gains they may impart, should not be exaggerated, however. Indeed, "sensitive" products, including agriculture and fisheries, but also certain manufactures, are being dealt with separately in annexes to the "Europe" agreements. 31/ Although EEC has bound itself in principle to relax its import restrictions also on those products, in time, and this is a firm commitment in the case of iron and steel products, in other cases the commitment is more in the nature of a hedged promise than a firm resolution to provide room for these products from the East in EEC markets.

62. Improved access to developed-country markets is essential to successful transformation, particularly in the smaller countries of the East. It is the most important form of assistance that developed countries can extend to the Eastern economies. Lowering tariff barriers and removing some quantitative restrictions are certainly useful policy measures. However, market access for a number of key products, including access in EEC and EFTA, is still being regulated through quantitative means, although there is likely to be much less rigidity over the medium term. These sensitive products, which include agriculture and fisheries, textiles and clothing, steel products, footwear and some chemicals account for a substantial share of the exports of the Eastern countries to the EEC 32/ and, at least for now, are the very products in which the East has an apparent comparative advantage and could quickly raise its sustainable export volume. 33/

63. For some of the successor Soviet republics it may be unrealistic even to aspire to a special association status with either EEC or EFTA, and so these countries have negotiated, or are in the process of negotiating, special trade and cooperation agreements, particularly with EEC. Agreements on trade and commercial and economic cooperation (so-called "first-generation" or "second-generation" agreements, as distinct from the "Europe" agreements, which are third generation) were signed on 11 May 1992 with Albania and the three Baltic States. 34/ The latter three were essentially an acknowledgement that the old EEC-USSR agreement was no longer applicable. All four allow for the eventual negotiation of "Europe" association agreements when conditions are met.

64. The various arrangements will entail some diversion of trade in favour of Eastern partners, chiefly in the form of new exports to Western European markets, as a result of the special discriminatory arrangements.

Potential for foreign direct investment in the East

65. With trade liberalization, the Eastern countries have been introducing provisions that offer much easier access for foreign capital to their markets, including efforts to privatize the vast bulk of State-owned assets. The transition economies offer advantages to foreign direct investment in terms, inter alia, of location, low wages and high human skills. As a result, the pace of foreign direct investment flowing into selected transition economies, notably Czechoslovakia and Hungary, has recently accelerated, from some $2.5 billion in 1989 to some $7 billion in 1990 and perhaps $10 billion in 1991. 35/ Disbursement has, however, continued to be rather small, almost certainly under $1 billion in 1990 and about $2.5 billion in 1992. 36/ Inflows of other funds from abroad have, on the whole, been limited to scattered bond flotations, some commercial bank lending and official transfers in the context of international assistance to the transition economies, including emergency assistance.

66. The overall volume of private capital inflows is still quite modest, however, in terms of both global capital flows and flows earmarked for developing countries, and indeed when contrasted with the resources that will

be required to revive and bolster the transition economies. For as long as substantial uncertainty about the economics and politics of the transitions in the East remains, foreign investors are unlikely to commit themselves fully to moving production facilities on any substantial scale into these countries, in contrast to exploiting some natural resources. That may happen in the future, once economic, political and social stability has been restored, basic infrastructure, such as telecommunications, roads, commercial banking and property rights, has been firmly retooled and other obstacles to the transition have begun to ebb.

67. Soon after the start of the political revolutions in the East, various Governments of developed and developing countries, as well as a number of regional and international organizations, including notably the multilateral financial institutions, underlined their willingness to assist the countries in transition through various means, including emergency aid, technical assistance and capital flows. No precise tally seems to have been kept of how much has been committed and transferred to the Eastern countries. Total assistance commitments by the Group of Twenty-four and the regional and international agencies for the Eastern countries other than the former Soviet Union as at the end of 1991 stood at some ECU 42 billion (or $52 billion), 37/ excluding debt cancellation and rescheduling. 38/ There has probably been some increase since then, largely because of some of the Balkan States. The total is probably around $55 billion by now, including further debt reschedulings or debt forgiveness. Actual inflows into the countries in transition may have been some $10 billion in 1990 and perhaps twice that amount in 1991, on account, inter alia, of private capital flows and debt rescheduling. 39/

68. Among the multilateral agencies, IMF, the World Bank, the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD), which was created especially to assist the transition economies, have been particularly active in delivering assistance to the East on market terms. Total commitments from the World Bank at the end of 1991 may have been on the order of $5.5 billion, from EBRD about $0.5 billion and from EIB under $1 billion. Total disbursements from IMF as at the end of May 1992 may have been some $5.1 billion.

69. Disbursing the committed assistance has proved to be much more difficult than had been envisaged, in part because of the lack of a clear conception of the type of assistance to be provided and the concrete purposes to be served, as well as poor coordination and preparedness to receive the proper aid on the part of the transition economies themselves.

70. Much more attention has recently been paid to the former Soviet Union than was the case until late 1991, partly as a consequence of the Washington Conference mechanism, which is separate from the Group of Twenty-four efforts discussed above. By the end of 1991, financial commitments amounted to some $79 billion, excluding debt rescheduling, appropriated over three to four years. Actual disbursement would seem to have been on the order of $30 billion in 1991, but official assistance did not compensate for the outflow of private capital, leaving a net outflow of about $10 billion.

71. Over the next several years, disbursements to the countries in transition are likely to increase sharply. There is also likely to be a sharp rise in new commitments, particularly to the successor republics of the Soviet Union. Although forecasts of total anticipated flows cannot be prepared, the international economic agencies have put forward estimates of the shortfall in convertible currency to be covered through international flows in order to keep those countries on an agreed transition path. The International Monetary Fund estimates that some $24 billion, including the planned $6 billion stabilization fund, will be needed in 1992 for Russia alone, and perhaps $44 billion for all the successor Soviet republics and some $120 billion to $160 billion for 1992-1995, of which IMF itself is prepared to fund some $25 billion. 40/ The European Bank for Reconstruction and Development is prepared to fund about ECU 3.5 billion to 4 billion ($4.4 billion-$5 billion) during 1992-1995, and expects to augment this sum by mobilizing co-financing of even greater amounts. 41/ The World Bank has been prepared to augment its lending by a sizable amount, perhaps $25 billion by 1994. 42/ Yet funding from the multilateral agencies will not suffice to close the financial gaps of the transition economies.

72. Though the sums earmarked to date are by no means negligible, they have continued to be comparatively small when measured against the needs for capital in the transition economies or when contrasted with the assistance that was provided after the Second World War to Western Europe. Furthermore, much of the assistance thus far provided to the countries in transition has been debt-creating on market terms rather than in the form of concessional or unrequited transfers. To the extent that these loans will be channelled into effective restructuring and raise the export potential of the transition economies, such assistance should prove quite valuable. There is, however, the danger that the transition will be much more protracted and its success much less assured than originally forecast. The rise in the external debt could then become an albatross to policy makers, much as it was in many countries in the 1980s.

73. One flow from West to East that has rapidly increased is brainpower, as reflected in the enormous attention devoted to the problématique of the transition. This has been evident not only in the behaviour of regional and international organizations, and the explosion of academic interest in addressing the critical issues of the economies of transition, but also in the noticeable expansion since 1990 of the class of consultants and commercial bankers whose advisory services play a considerable role in smoothing the flow of foreign direct investment around the world. Likewise, business leaders and corporate strategists of major transnational corporations have centred much of their attention recently on exploring potentials for expanding activities in the transition economies.

V. IMPLICATIONS FOR DEVELOPING COUNTRIES

74. The determination to abandon socialist planning and switch to a market-orientation in the East was expected to compress the room for feasible trade, finance and development assistance between East and South. The outcome

was expected to be quite negative, particularly for developing countries whose relationship with CMEA or its individual members, notably the former Soviet Union, had been based on other than economic grounds. The new demands arising in the transition economies would not primarily benefit that group of developing countries, but rather the more developed among the developing countries and the Western market economies. On the other hand, increased competition among the Eastern countries themselves was expected, particularly in the short run, to compress the opportunities for fruitful competition on the part of most developing countries. The transition economies were expected to wage much more intensive competition, notably in Western European markets, thus possibly undercutting the ostensible comparative advantages of a number of developing countries.

75. It could have been expected that vibrant transition economies would take a more active part and assume a different role in international assistance efforts from that played by the predecessor planned economies. Yet so far the transition economies have shied away from establishing new institutions and policies to replace those that were abruptly abandoned after the political revolutions in the area and the severing of traditional ties with developing countries.

76. The sizable capacities that existed in the transition economies to deliver, for example, technical assistance to developing countries were being jettisoned soon after the political revolutions. It would have required a comparatively small effort, possibly arranged through the international community, to mobilize those resources and continue the economically viable projects, notably in the small group of developing countries that had benefited from assistance policies pursued by the previous communist regimes, or embark on projects in developing economies that could easily have been justified on normal economic criteria of choice, regardless of the political and strategic leanings of the Governments in place.

77. It is now widely agreed that a massive shift of resources in favour of the transition economies has not so far occurred, in part for the reasons given in the report of the Secretary-General to the Special High-level Meeting of 1991 (E/1991/82) and in other relevant documents. 43/

78. The international community has thus far committed itself to the principle of additionality, that is, resources normally earmarked for ODA will not be diverted to the transition economies. Such a trade-off has materialized in only a few instances during the past three years or so. Governments have funded their commitments to the East either from already sunk costs, such as the delivery of stockpiled foodstuffs; by issuing credit guarantees whose potential costs are not reflected in current budgets; or by appropriating funds from other purposes, but not ODA. This includes paid-in contributions to EBRD, which has been lending in support of the East's transformation policies since the second half of 1991. Likewise, the multilateral financial institutions have thus far been able to engage themselves on a significant scale in providing assistance to the East from existing resources. The regional organizations, notably EEC, have

appropriated extra resources to be channelled to the East. In all this, it should not be forgotten that disbursements of committed funds have lagged significantly behind initial promises.

79. Though the principle of additionality has thus far on the whole been adhered to, there is a strong possibility that, as time goes by, policy makers in major donor countries may wish to consolidate their assistance budgets to developing and transition economies. This might lead to a prima facie case of a direct trade-off. It is not clear how such a merger could be avoided.

80. The international community should also be wary about any diversion to the transition economies of multilateral development assistance, notably from IMF and the World Bank. With proper borrowing strategies, for which funding authority is already in place, the World Bank should be able to step up its lending efforts in the East on a major scale without cutting into resources available to assist developing countries. This is not necessarily the case for the International Development Association (IDA) and IMF, however. Unless the tenth replenishment of IDA involves additional resources to accommodate some of the successor Soviet republics, traditional recipients will be adversely affected. Also, the ninth quota review of IMF should be ratified as soon as possible, so that adequate resources will be available to support the additional requests for loans, notably from the larger successor Soviet republics, without cutting into the funds on which developing countries can lay claim.

81. Had the developed market economies remained buoyant, rather than gone into recession in North America in 1990, in Europe in 1991 and apparently in Japan in 1992, particularly if disbursements had been accelerated, the East's demand for funds (including, of course, indirectly through the loans arranged by international organizations) might well have put upward pressure on interest rates. The experience of Germany is noteworthy in this respect. Because of the soft demand for loans and explicit policy stances in key developed countries to bring down and keep inflation at tolerable levels, to hold on to fixed exchange rates in Europe and to lower short-term, and perhaps also long-term, interest rates, although the latter have been more obdurate, the impact on global interest rates of the increased demand for capital by the transition economies has remained muted, except notably in Germany for short-term rates and, by extension, in key European currency markets. This has its origin largely in the massive transfers of funds, cumulatively running into hundreds of billions of dollars since mid-1990, from the western Länder of Germany to what used to be the German Democratic Republic.

82. A sustainable recovery in developed countries, as well as any sharp increase in the financing requirements notably of Germany's deficit, 44/ may well entail such a rise not only in short-term but also in long-term rates. This could only worsen the debt burden for developing countries.

83. Though the upward pressure on interest rates is something to be closely monitored, it would be wrong to assume that the additional capital needs of the East will have to be met solely from international savings. The

structural aspects of saving behaviour in the global economy, and how that behaviour evolves according to various interrelated circumstances, are not yet fully understood; the factors affecting saving behaviour in the transition economies are even less transparent. The experience over the past three years or so has already indicated that a substantial part of the capital demands of the transition countries will and can be met through domestic savings. There is no reason to assume that the structure of saving behaviour elsewhere is immutable, and that therefore only changes in the demand for investment funds affect interest rates.

84. The opening up of the transition economies offers trading and other economic opportunities also for developing countries. Although some have already benefited from the new policies in the Eastern countries, chiefly through expanding their merchandise exports, the vast majority of developing countries have not yet done so. This is to some extent a result of the massive contraction in absorption levels, hence import demands, in the transition economies. It is also a consequence of the abrupt rupture in traditional trade and payment instruments, following the inauguration of transition policies. To some degree it is also a consequence of the simple fact that a number of developing countries do not possess the resources to broach these new markets for their exportables, let alone to pursue other, more demanding forms of economic cooperation. The international community may find it to its advantage to provide targeted technical assistance on this score to interested developing countries.

85. Because of the economic slump in the East, and undoubtedly the continuing economic, political and social uncertainty, most Eastern countries have not recently had access to any substantial commercial lending. Hungary was a major exception in 1991. Commercial banks have, on the contrary, been primarily concerned about recovering their loans in several transition economies, including Bulgaria, Poland, Romania and the former Soviet Union. Though some transition economies that had not previously indebted themselves on any substantial scale could arguably have obtained such financing, policy makers in those countries, on the whole, chose to eschew such capital inflows. There is unlikely to be any major change in this respect in the near term.

86. Largely because of the uncertainty prevailing in the transition economies and the extremely rudimentary nature of financial markets there, if they exist at all, portfolio investment in the East is a source of funds that may only in time assume any important dimensions. It is not a factor that, on present expectations, can be counted on in the short to medium term.

87. The potential for competition between developing countries and transition economies in attracting foreign direct investment is, however, a different matter. Although there has been a noticeable rise in flows of foreign direct investment, notably into Central Europe, two factors should be heeded. First, the size of flows into the East is only a small fraction of the total flows recorded to developing countries, probably amounting in total to under $1 billion in 1990 and about $2.5 billion in 1992. 45/ Secondly, the volume

of foreign direct investment available at any moment of time is not a fixed sum. Rather, its size depends on the attractiveness of investment projects as ascertained largely by transnational corporations. If economically viable projects emerge, they will find adequate financing, particularly at a time of widespread unutilized capacity in the world economy and falling interest rates.

88. Whereas the flow of persons between East and West has significantly increased over levels observed, say, in the late 1980s, there is little evidence that any sizable accommodation of labour from the East has been made in Western markets. The increased migration flows that have thus far materialized have been chiefly on account of tourism, now that individuals from the East have ready access to travel abroad; commercial and diplomatic or quasi-diplomatic ties; and the exchange of students, scholars and technicians between East and West. Certainly, some professionals have found occupations in Western countries but their numbers have remained insignificant. For the time being at least, the fears that migrant workers from developing countries in the West would be displaced by individuals from the East have not materialized and such a substitution is not likely to occur in the future. That is not to say that the constraints on emigration into the West, notably EEC, have not increased, but that development stems primarily from factors other than any accommodation for the East. In fact, free movement of people is one of the "four freedoms" that will be settled in negotiations between EEC and the Eastern signatories of the "Europe" agreements sometime in the future. For the time being, it is part and parcel of the protocols to the agreements.

89. Though substantial assistance has been provided by bilateral and multilateral donors and other agencies and some part of this has been transferred, the sums involved have remained rather small, as reported in section IV. Even with a rise in disbursements and new commitments to the countries in transition in the years ahead, forecasts of plausible anticipated flows leave sizable gaps in the financing requirements of many transition economies that will need to be filled through private sources, mostly foreign direct investment.

90. In other words, on present disbursement trends to the East, the potential for diversion of funds earmarked for developing countries and for waging competition with them in Western markets is not very considerable, but a pronounced deterioration in the East's socio-economic situation might set in train financial, demographic and other pressures that could be staved off only through much larger international assistance. If such a claim on resources were to materialize, given the reluctance of the electorate in major donor countries to increase assistance budgets substantially, it is difficult to envisage how a diversion of funds otherwise committed to traditional development assistance could be averted.

91. Two other issues deserve a brief comment. One concerns the impact of the transition on the ability of the Eastern countries to service their external debts. Several of the transition economies, including Bulgaria, Hungary, Poland and the former Soviet Union, embarked upon transition when their

ability to service their external debt was confined. Of the heavily indebted countries, only Hungary has continued to service its debt. Only Poland succeeded in March 1991 in negotiating a substantial package of debt forgiveness. The other transition economies have either been in virtual default or have been negotiating special leeway with repayment of principal and interest.

92. The other involves the attention that transition issues have been receiving, to the exclusion of many chronic development problems. It is not clear to what extent the plight of the transition economies has had any impact at all on the international community's appreciation of the problems faced by countries with substantial debt obligations. The more lenient attitude of the international community towards debt problems that has emerged in recent months may have received a boost from the situation in the East, but there is not a readily identifiable linkage.

93. Much of the attention previously devoted to development issues has been shifted to the unprecedented questions of the transition. It is arguable whether this diversion of intellectual attention from the problems of the developing countries is a negative feature of the transition in the Eastern economies, and for whom. Though the legion of consultants and instant advisers who are now focusing their energy on the East may yet prove a boon to many developing countries, the diversion of intellectual and operational attention from development issues in several international and regional organizations may have more deleterious implications for developing countries.

VI. CONCLUDING OBSERVATIONS

94. There is wide agreement that the transition under way in the Eastern economies is unprecedented and of major importance to the international community. If only for that reason, efforts to introduce far-reaching structural changes in the Eastern economies deserve comprehensive international assistance. However, that assistance itself needs to be managed in the way most likely to produce positive effects on the transition, while containing any negative repercussions for other countries, including developing countries. The assistance, in addition to meeting emergency humanitarian needs, should be viewed largely as a catalyst, both in lending credibility to the transformation processes in the transition economies and in laying the groundwork for mobilizing private initiative, including foreign direct investment and, perhaps at a later stage, portfolio investment.

95. The transitions as they have been charted to date exhibit major differences in scope, depth and range, but it is now widely recognized that the timetable for even the most modest blueprint of desirable transition policies stretches far into the future. It is likely to be much longer for most of the successor Soviet republics than, say, for the Central European countries. While many arduous tasks still lie ahead, the latter countries have none the less already taken important steps in the direction of macroeconomic stabilization, institution building and some key initiatives

that will in time result in significant structural change. Much remains to be done, however, before any of these economies will be able to embark on a solid path of self-sustainable economic growth. A fortiori, the tasks ahead in those countries where the transition policies remain a subject of acute socio-political debate, such as in many of the successor Soviet republics, are even more daunting.

96. Part of the assistance to the transition economies will accompany the more active merger of those countries into the international community. This should be seen in conjunction with the opportunities for improving coordination of policies among major components of the world economy with a view to ensuring that global affairs are coordinated in the interest of all parts of the world economy. To reach the stage at which the countries in transition would be able to play such a full-fledged constructive role, it will be in the interest of the international community to provide temporary technical and financial assistance to deflect the most negative aspects of transformation policies for the populations of those countries. Their tacit or overt approval of transition policies is a condition sine qua non for the successful remaking of the eastern part of Europe.

97. A successful transition hinges critically on the ability of the Eastern countries to penetrate world markets on a competitive basis. That depends in part on the economic restructuring under way in the East, but it is also a function of the degree to which world markets remain open to competitive forces. Much remains to be done in this respect. Some efforts have been made to relax restrictions on a preferential basis, inter alia by EEC and EFTA. It would be even more important to seize the opportunity provided by the historic turn-around in the East to restore and reinforce basic elements of a multilateral trading world with minimal non-tariff inhibitions.

98. The emerging new framework for East-West economic cooperation offers opportunities for revamping management styles within the context of existing economic, financial, monetary and trade regimes, now with the full participation of the Eastern countries. Other measures are required to ensure that the interests of developing countries will not be adversely affected by the attention and resources being earmarked for the economies in transition.

99. Although the principle of additionality in commitments to assist the East by both national Governments and the multilateral financial organizations has to date been generally adhered to, there is no guarantee that this stance can be indefinitely maintained. There is now the realistic prospect that the East will need international assistance over a longer period of time and on a much larger scale than originally envisaged. The domestic policy agenda in major donor countries might make a merger of assistance budgets inevitable over the medium term. To the extent possible, this should be avoided as providing assistance to most of the Eastern countries is a different proposition from the global community's commitment to assisting the development process of the less advantaged countries in the world.

100. Several transition economies have obtained preferential access to Western markets, notably in EEC. This may in principle harm the interests of developing countries, regardless of whether they have any preferential status, such as various kinds of association with the EEC. More open, liberal trade policies would be of immense significance to most of the transition economies and in the long term, should considerably boost trade with developing countries. If only for these reasons, it is important to restore the multilateral trading system and improve it continuously, inter alia by bringing the Uruguay Round to a successful conclusion at the earliest opportunity.

Notes

1/ Official Records of the General Assembly, Forty-sixth Session, Supplement No. 3 (A/46/3/Rev.1), chap. II.

2/ The designations "East" and "Eastern" are used here to denote Albania, Eastern Europe and the former Soviet Union and Yugoslavia and, wherever appropriate, their successor republics. Likewise, "Eastern Europe" is used here to group together Bulgaria, Czechoslovakia, the German Democratic Republic (until late 1990), Hungary, Poland and Romania. In general, trade data through 1990 include data for the German Democratic Republic, as detailed in table 1.

3/ Afghanistan, Angola, Ethiopia, Iraq, Mexico, Mozambique, Nicaragua and Democratic Yemen (now merged with Yemen). Finland too signed a comprehensive cooperation agreement and maintained intimate ties with the East, but its case is very different from that of the developing-country cooperants. Mexico never diverted any sizable share of its trade to CMEA, and hence has not been noticeably affected by events in the East.

4/ India, for example, has accumulated a substantial credit position in its current account with the former Soviet Union, largely because contracted exports from the latter have not been forthcoming and yet contracted imports have thus far been accommodated within the provisions of the non-convertible rupee swing account - the key modus for Indian-Soviet trade for over three decades. The total amounts to some 32 billion rupees (or about $1.2 billion). At the same time, India owes the former Soviet Union some 8-10 billion roubles ($13 billion-$15 billion at the official exchange rates set in the Indian-Soviet agreement of 1978) for credits, largely for the purpose of arms and industrial equipment. For details, see The Economist, 16 May 1992, p. 42; Economic and Political Weekly, 4-11 January 1992, p. 3; and Financial Times, 18 October 1991 and 7 February 1992.

5/ For a rounded analysis of the many-sided problems of the transition in the eastern part of Europe, see Economic Survey of Europe in 1989-1990 (United Nations publication, Sales No. E.90.II.E.1), pp. 5ff.; Economic Survey of Europe in 1990-1991 (United Nations publication, Sales No. E.91.II.E.1), pp. 123-191; and Economic Survey of Europe in 1991-1992 (United Nations publication, Sales No. E.92.II.E.1), pp. 39-172.

Notes (continued)

6/ This topic is discussed in considerable detail in chapter VII of World Economic Survey 1992 (United Nations publication, Sales No. E.92.II.C.1), pp. 139-180.

7/ These options are explored in greater detail in Economic Survey of Europe in 1991-1992, pp. 191-256.

8/ Several countries affected by the sanctions made use of their right to consultations about the consequences of the Security Council measures. Some expected to obtain compensation for the adverse consequences they had to sustain. In fact, however, the special assistance undertaken to deal with the consequences of the Gulf war has been negligible.

9/ In late April 1992, all successor Soviet republics but Azerbaijan were admitted to IMF; Azerbaijan entered in early May. Also in late April, all successor Soviet republics but Azerbaijan and Turkmenistan were admitted to the World Bank; the two republics entered in early and mid-May, respectively. Ratification procedures do, of course, take some time so that normal operational membership may be attained only in the near term; for example, the Russian Federation did so only in July 1992. This is also true for the payment of the convertible currency share of membership quotas. In some cases developed countries have advanced the required funds to enable the transition economy to obtain a stand-by loan equivalent to or higher than the required membership deposit in convertible currency. Switzerland is currently considering advancing the money from its assistance budget for the East to several successor Soviet republics that wish to join the "Swiss voting group" in both IMF and the World Bank (see Neue Zürcher Zeitung, 12 August 1992, p. 17).

10/ GATT document L/7024.

11/ GATT document C/M/257, p. 3.

12/ Czechoslovakia is a charter Contracting Party to GATT, but its status changed, in fact, after the communist coup d'état of February 1948, when it began to be treated as a "State-trading country", just like other planned economies. Czechoslovakia's status in GATT remained in this legal limbo until recently.

13/ See GATT documents L/7026 for Moldova, L/7027 for Turkmenistan, L/7030 for Estonia, L/7033 for Armenia, L/7045 for Ukraine, L/7046 for Lithuania and L/7050 for Latvia.

14/ The GATT Council of Representatives, meeting on 19 June 1992, decided to extend the rules agreed upon in May 1990, when the Soviet Union's request for observer status was being considered, to the republics as well as Albania. It was also decided to accord Albania, Estonia, Moldova and

Notes (continued)

Turkmenistan observer status (see GATT document C/M/257 of 10 July 1992, p. 3). This stance was further underlined at the meeting of 14 July 1992, and both Armenia and Ukraine were granted observer status (see GATT document C/M/258 of 4 August 1992).

15/ See press communiqué GATT/1541 of 25 May 1992, entitled "GATT sets a special training course to guide reforming countries".

16/ Pending the resolution of a few outstanding problems, such as assigning the property rights to the organization's headquarters in Moscow. However, that question has yet to be satisfactorily resolved, and so officially CMEA is still in liquidation.

17/ To mitigate severe data problems, trade turnover is defined as half of the exports and imports reported by all partners.

18/ All trade data cited here are those compiled by the Economic Commission for Europe (ECE) according to a make-shift methodology that seeks to bridge the enormous difficulties of combining trade values expressed in dollars and transferable roubles at a time of rapidly fluctuating exchange rates and cross-rates between the dollar and the transferable rouble, as explained in table 1 and detailed in Economic Bulletin for Europe, vol. 42 (1990) (United Nations publication, Sales No. E.90.II.E.37), pp. 29-32 and Economic Bulletin for Europe, vol. 43 (1991) (United Nations publication, Sales No. E.91.II.E.39), pp. 58-62.

19/ Because of the enormous shifts in exchange rates, prices and price regimes in 1990-1991 in the East, it is all but impossible to measure terms-of-trade effects. Poland reported for 1991 a terms-of-trade deterioration of 29.8 per cent in its relations with the former CMEA, with export prices rising by 59.6 per cent as compared to 127.5 per cent on the import side (Handel Zagraniczny, Styczeń-Grudzień 1991, dane ostateczne (Warsaw, Glowny Urzad Statystyczny, March 1992), pp. 2, 42), but full methodological details are lacking. Using this information, the terms-of-trade loss for Eastern Europe may have been on the order of 25-40 per cent, with a corresponding gain for the former Soviet Union.

20/ For example, about half of Polish imports in 1991 were conducted in privately owned firms.

21/ Exports of petroleum and petroleum products from the former Soviet Union to the five Eastern European countries dropped from 56.4 million tons in 1989 to 43.4 million tons in 1990, and perhaps as low as 26 million tons in 1991. Although the recession in Eastern Europe curtailed the demand for petroleum, those countries none the less had to procure supplies from elsewhere, largely the oil-exporting developing countries.

Notes (continued)

22/ The severe problems of properly identifying both the level and direction of the shifts have recently been analysed in Economic Survey of Europe in 1991-1992, pp. 74-77.

23/ This point is examined and documented at considerable length in World Economic Survey 1991 (United Nations publication, Sales No. E.91.II.C.1), pp. 111-155.

24/ This follows the methodology of the data discussed in World Economic Survey 1991, pp. 139-144.

25/ Notably Algeria, Cambodia, Egypt, India, Iran (Islamic Republic of), Morocco, Pakistan and Syrian Arab Republic.

26/ For this report, the group is limited to Brazil, Hong Kong, Malaysia, Republic of Korea, Singapore, Taiwan Province of China, Thailand, Tunisia and Turkey, whenever comparable coverage could be ensured.

27/ These data may overstate the true rise since the computation assumes that there was no private-sector foreign trade in 1990. There are simply no data for 1990.

28/ For some detail, see GATT document C/M/258 of 4 August 1992, pp. 31-32. Sweden has signed a free trade agreement with the three Baltic States about which some details are also available in C/M/258, pp. 32-33.

29/ See Financial Times, 24 June 1992, p. 7.

30/ See Rynki Zagraniczne, 30 June 1992, p. 1.

31/ The complete "Europe" agreements have recently been officially released in Official Journal of the European Communities, vol. 35 (1992), Nos. L114, L115 and L116 (30 April 1992).

32/ In 1990, the combined export shares of sensitive product categories (defined as agricultural products, textile and clothing, and iron and steel products), as distinct from products that face specific import constraints, to Western markets as a whole still amounted to 32 per cent for Czechoslovakia, 41 per cent for Hungary and 37 per cent for Poland, after a rapid expansion in exports of other goods in 1988-1990 (see Economic Survey of Europe in 1991-1992, pp. 79-81). The shares in exports to EEC are higher than these magnitudes. In some cases, notably in iron and steel, the Central European countries were close to the ceiling of the quotas arranged under voluntary export-restraint agreements.

33/ Data compilations for 1991 are unfortunately still too incomplete to permit full coverage. In the case of Poland, for example, export volume in 1991 increased only for metallurgical products (by 18.4 per cent) and

Notes (continued)

agricultural products (by 25.6 per cent); and the smallest drop (2.9 per cent) in total export volume was recorded for food-processing (Handel Zagraniczny, Styczeń-Grudzień 1991, dane ostateczne, p. 23). Most of these goods were sold in Western European markets, particularly EEC.

34/ See Commission of the European Communities, documents COM(92) 178 for Albania, COM(92) 177 for Estonia, COM(92) 176 for Latvia and COM(92) 179 for Lithuania.

35/ The upward trend is continuing: as at the end of the first quarter of 1992, the value may have risen to nearly $12 billion. All data are estimates of the cumulative foreign capital component of foreign investment registrations as compiled by the Trade Division of ECE.

36/ The latest estimates prepared by ECE amount to a net inflow into all of the East, including the former Yugoslavia, of $762 million in 1990 and of $2,481 million in 1991 (based on preliminary draft of Economic Bulletin for Europe, vol. 44 (1992) (United Nations publication, forthcoming)).

37/ "Conclusions of the Group of 24 on coordinated assistance to central and eastern European countries" (Brussels, Commission of the European Communities, documents of the Meeting of the Group of Twenty-four, 8 April 1992). This total breaks down into 75 per cent from the Group of Twenty-four and the rest from the international financial institutions. Of the total, export credit and investment guarantees totalled ECU 7.8 billion and grants ECU 11.4 billion.

38/ Rescheduling of $1.8 billion for Bulgaria (over 10 years with a six-years grace period) and cancellation of some $16.5 billion for Poland.

39/ Estimates in Economic Survey of Europe in 1991-1992, pp. 180-182. Debt rescheduling and private flows amounted to $7.8 billion in 1990 and perhaps $11.2 billion in 1991.

40/ Quoted in Statement by the Managing Director, International Monetary Fund, Lisbon Conference, 23-24 May 1992 (mimeographed), p. 5.

41/ Statement of Mr. Jacques Attali, President of the European Bank for Reconstruction and Development (Lisbon Conference, 23-24 May 1992), p. 3, and direct communication from the bank.

42/ Data quoted from a briefing session by Mr. Wilfried P. Thalwitz, vice-president of the World Bank, United Nations, 24 July 1992.

Notes (continued)

43/ Including World Economic Survey 1991, pp. 111-155; Economic Survey of Europe in 1989-1990, pp. 212-223; Economic Survey of Europe in 1990-1991, pp. 116-121; Economic Bulletin for Europe, vol. 42 (1990), pp. 79-86; Economic Survey of Europe in 1991-1992, pp. 173-190; Economic Bulletin for Europe, vol. 43 (1991), pp. 106-112.

44/ Such a marked rise would seem to be in the offing for the latter part of 1992 and beyond (Financial Times, 4 August 1992, p. 15).

45/ Hard data on foreign direct investment flows, actual inflows from abroad as opposed to committed funds or nominal capital values of joint ventures, are difficult to obtain. Total foreign direct investment flows to developed and developing countries in 1990 amounted to some $152 billion and $32 billion, respectively (see World Investment Report 1992: Transnational Corporations as Engines of Growth (United Nations publication, Sales No. E.92.II.A.19), pp. 311-312). Inflows into the East in 1990 are estimated in that publication as $89 million, but that is almost certainly a wide understatement. Actual inflows in 1990 were probably on the order of $0.5 to $0.8 billion.

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DEVELOPMENT AND INTERNATIONAL ECONOMIC COOPERATION

Net transfer of resources between developing and developed countries

Report of the Secretary-General

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I. INTRODUCTION

1. In 1990, the net transfer of financial resources of the capital-importing developing countries as a group turned positive for the first time since 1983. It remained positive and rapidly increased in 1991. Yet the total flow of real resources to these economies in the two years was only barely positive when account is taken of the deterioration of their terms of trade.

2. The present report has been prepared in response to General Assembly resolution 45/192 of 21 December 1990 on the net transfer of resources between developing countries and developed countries, in which the Assembly requested the Secretary-General to include an update of the issue in the World Economic Survey 1991 and to submit to the General Assembly at its forty-seventh session an analytical report on the subject. 1/

II. OVERVIEW

3. There has been a turnaround in the net financial transfers to developing countries in the early 1990s. Between 1983 and 1989, there was a net outflow of financial resources from the capital-importing developing countries 2/ amounting to $98.5 billion. In 1990, the trend was reversed with a small positive net inflow of $9.6 billion, and in 1991 that amount went up to $32.5 billion. It is however still too early to conclude from this that the reversal of the negative trend can be hoped to be sustainable, or the positive inflow of financial resources of the past two years signified the beginning of a trend of transfer of new resources to the developing countries.

4. The global figures of net transfers do not always capture the underlying diversity of the experiences of the different developing countries at different levels of development from different regional groupings. For example, the 15 heavily indebted countries were mostly responsible for the net outflow of financial resources from the developing countries, accounting for a negative transfer of $211.7 billion between 1983 and 1989. Most of them, although not all, came from Latin America, which region as a whole also accounted for a net outflow of $171.1 billion during the same period. Such negative transfers continued in 1990 for both the 15 heavily indebted countries, amounting to $16.5 billion, and the Latin American countries, amounting to $15.6 billion. In 1991, however, this net transfer turned positive, equal to $8.4 billion for the 15 heavily indebted countries and only $4.4 billion for Latin America. The turnarounds in both groups were, however, mostly due to large positive flows of short-term borrowing and return of flight capital, amounting to $23.5 billion for the 15 heavily indebted and $16.4 billion for the Latin American countries.

5. It is difficult to decipher from these short-term flows how much is speculative response to reversible expectations, and how much is related to sustainable changes in economic variables. In an environment of global recession, depressed interest rates and uncertain prospects of output growth in the industrialized countries, a large part of such short-term capital

inflow into the developing countries may have very little to do with any improvement in the prospects of growth or the rates of return in the developing countries, which would be the variables relevant for sustainable positive inflows in these countries.

6. The net flow of medium- and long-term foreign private credit and foreign official credit continued to remain negative by substantial amounts, $24.4 billion for the 15 heavily indebted countries and $20.7 billion for the Latin American countries in 1991, clearly suggesting that there was little improvement in the confidence of the capital markets for those countries. There was, however, a noticeable although not very large increase in the net direct investment in those countries in 1991. This is partly the result of the privatization exercises in some of those countries, but is also the consequence of efforts to attract additional investments through changes in regulations and improved macroeconomic policies.

7. The other problem group of countries in Africa, and in sub-Saharan Africa in particular, did not experience even this indication of market-related improvement in net direct investments either in 1990 or in 1991. The net flow of foreign private credit continued to remain negative. Those countries, however, managed to receive positive, even if small, net transfers of financial flows throughout this period, because of a continued flow of official grants and credits. While the flow of official grants and credits has remained comparatively large and stable in the past five years in countries of sub-Saharan Africa, there was a sharp rise in the official grants in other African countries in 1990 and 1991, largely as a consequence of the conflict in the Persian Gulf.

8. The largest contribution to the global totals of net financial transfer to the developing countries in 1990 and 1991 came from Asia, which received $17.5 and $25.2 billion of positive net transfers in these two years. Asia as a whole performed best among all the developing countries throughout this period. It had positive net flows of significant amounts in all the years except 1987, received official grants of the order of $4 to $5 billion annually, and a flow of official credit that fluctuated between $7 and $15 billion in that period. These amounts, together with a significant flow of direct investment, more than compensated for the negative transfers on account of private foreign credit for most of the last six years.

9. In sum, a close look at the disaggregated figures of the net transfers would show that the past two years of positive net inflow of financial resources cannot be regarded as an indication of a basic change in the environment of the developing countries, or a reversal of the trend of economic conditions of those countries, which were mostly responsible for the problems of net outflow of financial resources. The prospects of continuing this trend of positive net transfer to the developing countries will depend on the international economic environment as well as on continuing confidence in those economies which have recently been attracting the flow of financial resources.

10. On the whole, the reversal of the outflow has been a highly welcome development. But the character of some of the recent flows, being largely of a short-term nature, has sometimes created problems of macroeconomic management in these countries. In fact, in 1990 and 1991 these financial transfers were almost entirely used to build up reserves in the developing countries. The growth of such official reserves in these countries, especially in Africa and in the 15 heavily indebted countries, has been no doubt beneficial for the short run, but the implication of the build-up is that the impact of resource flow on total expenditure (consumption plus investment) in the economy remains negative.

11. While the flow of financial resources to the capital-importing developing countries has turned positive, the flow appears far less impressive when account is taken of the terms of trade losses. As much as half of the $32 billion net inflow of financial resources to capital-importing developing countries in 1991 may have been offset by such losses. Indeed, when both factors are taken into account, Africa and Latin America and the Caribbean experienced a decline in net real resource availability in 1990 and again in 1991.

12. While an improved international environment - especially, sustained non-inflationary growth in industrialized countries - is necessary to smooth out fluctuation in interest rates, capital flows and terms of trade, most countries will continue to require policy adaptations. For individual developing countries, fluctuations in financial flows, particularly private flows, and terms of trade will remain large. In such countries, long-term strategies can help to reduce the impact of fluctuations, but short-term adjustment - of a macroeconomic nature - are unavoidable. Often a differentiated set of policies is required to face terms-of-trade shock as compared to a financial shock. While more flexibility in economic structure and policy is indispensable, a sound early response to shocks is essential to maintain or increase output levels.

III. CONSIDERATION OF THE NET TRANSFER AT THE UNITED NATIONS

13. The issue of net transfer of resources continues to attract considerable attention in international organizations and among development economists. The United Nations has considered the issue since 1986, when the General Assembly, in its resolution 41/180 of 8 December 1986, expressed concern at the accelerating rate at which the net transfer of resources from developing to developed countries was taking place.

14. It was already clear then that the premature onset of a reverse transfer (from developing to developed countries) had its origins in the debt crisis. The steep increase in debt-servicing costs and the sharp cutbacks in the current account deficit of capital importing developing in 1983-1984 were very much concentrated in the group of major debtors. 3/ A considerable part of the discussion of the 1980s on the net transfer and its measurement was devoted to conceptual problems. Different concepts and measurements often

made it difficult to agree about the causes of the phenomenon and its cure. At the same time, since the origins of the net transfer difficulties of the 1980s were in the period of increased bank lending of the 1970s, a comparative analysis of those two decades helped to identify the causes of the net negative transfer (see A/42/272).

15. Later analysis was extended to the examination of the interactions between changes in the terms of trade and changes in the pattern of financial flows to and from developing countries (see E/1988/64). The impact of the transfer of resources on investment and growth differed in particular countries and groups of countries, and depended greatly on the capacity of their economies to increase domestic savings and to cope with the decline in availability of external finance and the increase in debt repayment obligations. In the majority of indebted developing countries the negative financial transfer had been associated with a decline in the rates of investment and growth. 4/

16. Policy recommendations to reverse the outflow of financial resources from developing countries have addressed the issue of finance for development, measures to reduce debt and debt-servicing burdens, the level of world interest rates, the mobilization and more efficient utilization of domestic savings and the expansion and diversification of exports.

IV. REVERSAL IN THE NET FINANCIAL FLOWS OF DEVELOPING COUNTRIES AND THEIR COMPOSITION

17. The change to a positive transfer in 1990 and 1991 for the aggregate of developing countries is essentially a reflection of the change in the group of highly indebted countries, in which the weight of Latin American countries is large. The shift from negative to positive transfer in the heavily indebted countries at the beginning of the 1990s is almost as sharp as the opposite shift that had occurred among them at the beginning of the 1980s. The $16.5 billion net outflow of the group in 1990 turned into a net inflow of nearly $8.5 billion in 1991, or a shift of $25 billion (table 6). The reverse shift that started the negative transfer problem at the beginning of the 1980s had been of the order of $27 billion. In Latin America, the $15.6 billion net outflow of 1990 became a net inflow of $4.4 billion in 1991 - or a shift of $20 billion in one year (table 2). The picture in sub-Saharan Africa excluding Nigeria (table 4) has remained more or less unchanged in the past five years, with a positive flow of between $6.4 billion and $7.4 billion. For the whole of Africa (table 2), however, 1990 and 1991 are anomalies, and what stands out is a reduction in the overall financial positive transfer despite a temporary jump in official grants. In Asia (table 5), where the net financial transfer was positive for most of the 1980s, there was a sharp increase in that transfer in 1991.

18. Financial flows originate from several sources. They include official credits, private and official grants, foreign direct investment and short-term borrowing. The relative importance of each of these components and their movements varies greatly among countries and groups of countries.

19. The net transfer through official flows increased in 1990 and 1991, due to an exceptional increase in official grants. Official grants have increased in importance over the years, but the aggregate figures for 1990 and 1991 are far above trend, reflecting grants in connection with the Persian Gulf conflict. In sub-Saharan Africa, in particular, where transfers through official flows are the most important financial source, official grants have almost doubled over the decade and have surpassed official credits. But as official credits were less than at the beginning of the 1980s and as interest payments increased, the net transfer through official flows to sub-Saharan Africa did not increase much. In the past three years, official grants to the region remained virtually unchanged (table 4). For Africa as a whole, however, official grants climbed from $7 billion in 1989 to $20 billion in 1990 and remained high in 1991 (table 3), reflecting the prominence of the Gulf war-related official transfers to Egypt. In other regions grants as a source of finance are less important.

20. The aggregate of bilateral and multilateral net official credits and their respective interest payments has not changed much in the past three years. However, there was a large increase in net official credits in Asia in 1991, due to the accords between India and the multilateral financial institutions.

21. While Africa, and sub-Saharan Africa, maintained a net positive financial transfer over the decade, it should be noted that Nigeria, where private credits have had an important role, has been suffering a net negative transfer since 1984, and has not yet experienced any reversal of fortune in the 1990s.

22. Medium- and long-term foreign private borrowing in 1991 increased by about $3 billion to reach $10 billion. Some developing countries, predominantly in Asia, increased their borrowing on international capital markets (table 5). The largest change in the 1990s, however, is that a number of Latin American countries regained access to those markets, albeit limited and expensive. The net private credit flow, which was still negative in Latin America in 1989, became positive in 1990 (table 2). This flow includes the issues of bonds abroad, mostly in the Eurobond market, which is being increasingly used by Latin American borrowers. Interest paid on long-term private loans was lower in 1990 compared to 1988-1989, in particular in Latin America and the Caribbean and in the group of heavily indebted countries, reflecting not only payment arrears but a reduction in international interest rates. However, the conclusion of debt reduction agreements for some countries meant a resumption of normal debt service, so that the amount of interests paid increased in 1991 compared to 1990, despite further declines in world interest rates.

23. New bond issues by developing countries in 1991 were dominated by Latin America. This was partly a result of the various debt restructuring exercises: at work was a combination of hesitance of the Latin American countries to add more bank debt when debt reduction was being sought and reluctance of commercial banks which were not ready to add long-term exposure to the region. More than $30 billion of new bonds were issued by Mexico in

connection with its bank debt restructuring, almost $20 billion by Venezuela (see A/47/396). Also, not directly related to any restructuring, borrowers from Argentina, Brazil, Mexico and Venezuela, and recently also from Chile, have raised funds through Eurodollar bond issues, although at relatively high costs. The Republic of Korea, whose emerging large current account deficit necessitated increased overseas funding, India and Indonesia were the main Asian borrowers to tap the international bond market. In contrast to the bond market, the syndicated credit market was dominated by South and East Asian countries, led by the Republic of Korea and Indonesia. As the new bank loans were extended almost exclusively to highly creditworthy borrowers, average spreads on the new loans to developing countries increased only marginally in 1991 compared to one year earlier.

24. Despite the fact that lately the bond credit market has been growing faster than traditional bank lending, the item "medium- and long-term foreign private borrowing" still constitutes mostly bank loans. On the whole, the transfer on this item remains a large negative.

25. The net transfer through direct investment increased by over $2 billion in 1991 and reached $8.4 billion for the capital-importing countries as a whole. In the last years, developing countries in Asia have had the largest net flows of foreign direct investment. By contrast, Africa has had very limited net flows of such investment. For sub-Saharan Africa, in particular, dividends remitted abroad have been much larger than the inflow of foreign investment for over a decade. In Asia and in Africa, 1991 did not mark a departure from the recent trend (tables 3, 4 and 5). The overall increase in the net positive transfer through direct investment mainly reflects the changed economic fortunes of Latin America, where the increase was $3.5 billion (table 2). Mexico, in particular, saw a large increase in foreign direct investment, partly fuelled by expectation of the conclusion of the North American Free Trade Agreement (NAFTA). Some foreign direct investment in Latin America was effected through debt-equity swaps.

26. It is important to note that the largest shift in resource flow in 1991 occurred in the item short-term borrowing and domestic outflows, which reflects the movement of short-term private capital and includes some capital repatriation. This shift was about $21 billion for the aggregate of capital-importing developing countries (table 1). The swing was even larger for the highly indebted countries (over $30 billion) and for Latin America and the Caribbean (over $25 billion).

27. Reduced to its essential characteristics, the positive net transfer of 1990-1991 represents a reversal in Latin America and the Caribbean, more than in any other region, and in short-term capital, more than in any other component of the overall financial flow. Capital has been flowing back to a number of Latin American countries for various reasons. The restructuring of bank debt, together with stabilization efforts and economic and institutional reforms that reduced inflation, cut trade barriers, lifted controls on capital movements, privatized State enterprises and increased competitiveness, helped to change views and expectations about the regional economy. Symptomatic of the improvement in investors' confidence were the highly buoyant Latin

American stock markets, aided also by lower returns elsewhere. Moreover, real interest rate differentials between several Latin American countries and the United States, after successive reductions by the Federal Reserve Board, became so large that they would allow for margins to cover the exchange rate risk against the Latin American currencies. Capital flight has slowed or stopped, or capital repatriation has begun. Foreign direct investment and equity issues have grown as well. In some countries, large-scale privatization has attracted foreign investors. International equity markets were tapped by developing country companies that launched new share offerings in 1991 and in the first half of 1992. They were predominantly from Latin America, led by Mexico.

28. Although not all short-term flows are of speculative nature, they cannot be relied upon to increase long-term investment and growth. The recent upturn in some of the economies benefiting from the sudden shift could therefore prove fragile. Beside their possible instability, large short-term capital inflows complicate macroeconomic management.

29. Not all rapid changes cause difficulties. Much depends on the starting conditions in each country and the type of flow. The destabilizing potential of large short-term capital movements is well known. Sudden inflows tend to bring an appreciation of the local currency in countries with a floating rate of exchange. The Central Bank has no alternative but to buy the sudden surplus of hard currency, if it is not to allow an appreciation of the domestic currency detrimental to local exports and import-competing production. The problem, then, is how to finance the accumulation of hard currency reserves without expanding unduly the monetary base. Such accumulation of reserves has been very large in Latin America in the past two years, and not all countries had the capacity to absorb the sudden new inflows without either an unwelcome appreciation of their currency or inflationary pressure. 5/

30. In a few other countries, where the exchange rate has not been left to float but has been used as an anchor to help domestic price stabilization, real exchange appreciation due to the large capital inflow could be sustained. But such appreciation might weaken the export sector and signal renewed balance-of-payments difficulties in the future. 6/ In fact, in some Latin American countries imports did grow rapidly last year, and much faster than exports.

31. Import growth continued unabated in 1992. Imports doubled in Argentina in 1991, and the trade surplus was almost halved to $4.7 billion; imports continued to grow so fast in the first months of 1992 that a disappearance of the trade surplus of Argentina is forecast for 1992. In Mexico imports grew by 22 per cent in 1991, after a jump of 34 per cent in 1990. Since 1987, imports have been growing so much faster than exports that the trade surplus of $8.4 billion of that year had turned into a trade deficit of $11 billion by 1991. In the first months of 1992 imports were growing at the same rate as in 1991, while exports were falling, raising the prospect of an even larger trade deficit. In Venezuela imports expanded by 60 per cent last year, while

exports declined, more than halving the trade surplus from $10 billion to $4 billion. Trade deficits can be maintained as long as the large inflow of capital persists. But if the financial investors' euphoria does not result in investment in the tradables sector so that its productivity and competitiveness are increased, such rapid expansion of imports will become unsustainable in the medium and long run.

32. Several countries have faced the problem of neutralizing the impact of incoming capital on their money supplies and inflation rates. 7/ Of course, the destabilizing potential will be larger in countries that have not yet managed to fully put in place stabilization programmes and where inflation rates are still high. To finance accumulation of reserves, the Government has to reduce public sector finance requirements elsewhere. The increase in domestic public debt may be the counterpart of the accumulation of foreign exchange reserves, but in a few countries domestic public debt is already very high. Increases in short-term public debt are inflationary and exert upward pressure on domestic interest rates, which in turn accelerates the inflow of short-term foreign capital.

33. All in all, even though the renewed ability to tap the international capital markets is a positive development, it has also complicated macroeconomic management. The major aim must be to secure and utilize sources of stable finance compatible with a reasonable time-frame for productive investment to mature and become profitable. The reversal of the net transfer must be a sustained one if it is to result in an increase in long-term investment.

34. High reserves are useful if the central bank has to counteract speculative movements against the exchange rate. They are necessary to allow the central bank to stabilize the currency, given the high volatility of short-term capital movements. High foreign exchange reserves can also function de facto as a guarantee for domestic public debt. However, in the medium and long term, external resources should be used to increase investment in production for the domestic and external markets. The accumulation of reserves without a recovery in investment and economic growth rates offers limited benefit. The reserve build-up in fact implies a fall in domestic expenditure, other things remaining the same, and on an expenditure basis the transfer of financial resources still remained negative in 1991, to the tune of $13 billion for the capital-importing developing countries. This was, however, a significant improvement on an outflow of $26 billion in 1990 (table 1).

V. TERMS OF TRADE AND THEIR RELATIONSHIP TO NET RESOURCE AVAILABILITY

35. Changes in terms of trade and changes in the patterns of financial flows may interact in several ways. These interactions have been examined in the past reports on net transfer. A sudden worsening of terms of trade, brought about by a sharp decline in prices of the main commodity exports of a country or a rise in import prices, increases the need for external finance. Along the same lines, if a country has to make a financial transfer abroad to service previously contracted debt, obviously the task is made easier (harder) depending on the presence of gains (losses) deriving from changes in terms of trade. Conversely, a growing net inflow of financial resources does not translate into an increase in real resource availability if the loss derived from changes in the terms of trade is larger than that additional net inflow.

36. A common measure of terms of trade used by international organizations is the so-called net barter terms of trade. They are calculated as changes in the ratio of an export price index to an import price index, relative to a base year. If a country faces a reduction in its terms of trade index, it means that for the same volume of exports it will be able to obtain fewer imports, which is equivalent to a decline in real income of the country. Such comparison between two points in time is only approximate, and it is less precise over the long term because the composition of exports and imports of a country changes over time.

37. Changes over the 1980s were examined earlier (see A/45/487) and the focus here will be on the first years of the 1990s. Calculations in table 7 compare every year with the year before. In the calculations, the volume of exports and imports remains constant at the level of the year before, so that the effect of price changes is isolated. The estimated gain of $3.3 billion for the developing countries in 1990 results from the movement of export and import prices between 1989 and 1990. It is the difference between the 1990 volume (of exports and imports) at 1990 prices and the 1990 volume at 1989 prices. Using the same method, the loss of the developing countries in 1991 works out at $29 billion and the projection for 1992 puts such loss at $19 billion.

38. The impact of movements in export and import prices on country groupings and individual countries obviously varies according to the composition of their exports. The gain of 1990 in terms of trade, for instance, reflects mainly the increase in oil prices with the start of the Persian Gulf conflict, and it was essentially a gain of oil-exporting countries. Commodity-dependent Africa is more heavily affected by changes in terms of trade than other regions: the terms of trade loss of $5.6 billion in 1991 represents between 1.5 per cent and 2 per cent of the regional GDP. The loss in South and East Asia (excluding China) was approximately the same absolute amount, but represented only a half per cent of the GDP of that region. Within each of the groupings, of course, countries with more diversified exports and a high share of manufacture exports faced neutral or improving terms of trade. The proportion of such countries is higher in South and East Asia.

39. On the whole, the transfer of real resources to the capital-importing developing countries at the beginning of the 1990s was more limited than indicated by financial transfers alone. In 1990, these countries had a positive financial transfer of almost $10 billion, but their net resource availability was considerably smaller. In that year developing countries as a whole (including capital-exporting countries) had a net term of trade gain of some $3 billion. The gain was, however, concentrated in West Asia (see table 7), which is dominated by capital exporters, leaving other developing countries with a terms of trade loss. The real availability of resources for the latter 8/ was thus smaller than the $10 billion net financial inflow, probably considerably so. In 1991, the capital-importing developing countries received a net financial transfer of about $32 billion but probably half of that was offset by the deterioration in their terms of trade. 9/

40. Changes in the world economy and international economic variables affect groups of countries in different ways and with varying intensity, depending on the structure of their economies and the perceptions of international markets. Latin America and the Caribbean is a region relatively more sensitive to the rise or fall of world interest rates, while commodity prices are more crucial for Africa, for instance. Thus, the comparison between the changes in the financial transfer and terms of trade losses or gains yields different results in the various regions: Asia, aggregated, did not lose from the terms of trade movements in 1990 and 1991 as much as it gained from net financial transfers; it experienced an actual increase in net real resource availability. Africa, on the whole, despite the positive financial transfer, had a net outflow of real resources in the two first years of the decade; the same can be said of Latin America, where the positive net transfer of $4 billion in 1991 comes in the same year in which the region lost almost $8 billion from the unfavourable movement in terms of trade. For both regions, the net real resource availability declined in 1990 and 1991 on account of financial transfers and terms of trade changes.

VI. CONCLUDING OBSERVATIONS

41. The transfer of financial resources to the developing countries turned positive in 1990 for the first time since 1983 and increased significantly in 1991. It is still unclear whether the trend will continue. The prospects will depend on the international economic environment as well as on continuing confidence in those economies which have recently been attracting the flow of financial resources. On the whole, the reversal of the outflow has been a highly welcome development. The nature of some of the recent flows has, however, been such that they have not been an unmixed blessing. Being largely of a short-term nature, they have created problems of macroeconomic management in some countries.

42. While the flow of financial resources to the capital-importing developing countries has turned positive, the flow appears far less impressive when account is taken of the terms of trade losses. As much as half of the $32 billion inflow of financial resources in 1991 may have been offset by such losses.

43. The impact of resource flows varies greatly among countries, depending on their economic structure, the sources and other characteristics of the financial flows and the nature of changes in the world economic environment. Especially important is the differential impact of the latter. Some countries are, for example, likely to be much more affected by movements in terms of trade than by changes in international interest rates.

44. An improved international environment can do much to smooth out financial and terms-of-trade shocks. Sustained non-inflationary growth in industrialized countries should contribute to more stable interest rates and financial flows and less abrupt changes in terms of trade. Still, for individual developing countries, changes in external financial flows, particularly private flows, and substantial changes in terms of trade are likely to remain large. While national development strategies geared to diversifying production structures and improving the functioning of domestic capital markets can help reduce potential fluctuations in capital flows and terms of trade in the long run, an accommodation of macroeconomic policies to cope with the impact of such fluctuations on the domestic economy is virtually unavoidable.

45. Terms of trade losses imply a direct fall in real national income. If the country does not seek compensatory capital inflow (e.g. IMF credit) or devalues, or both, there is an additonal effect on domestic expenditures that should lead to reduced aggregate output. In other words, macroeconomic policies should be geared to avoiding further losses in output. On the other hand, a financial shock can often be absorbed by a change in reserves and some accommodations in monetary (interest rate) policies. However, a large shock can lead to considerable pressures on the exchange rate. Depending on the foreign exchange regime, this should translate into an immediate change (floating rate) in the exchange rate or a delayed one (fixed exchange rate regime). Such a change will contribute to a smooth adjustment to financial inflows. Still, repercussions on the real economy can be quite significant.

Table 1. Net transfer of financial resources of capital-importing developing countries a/

(Billions of United States dollars)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991 b/
Transfer through direct investment c/											
Net investment flow	9.7	7.2	6.3	6.3	7.5	5.9	9.4	14.6	16.8	17.0	18.9
Net dividends and other income	-10.2	-9.8	-9.4	-8.6	-8.0	-7.1	-8.1	-8.5	-10.0	-10.8	-10.4
Net transfer	-0.4	-2.6	-3.1	-2.3	-0.5	-1.2	1.2	6.1	6.7	6.2	8.4
Transfer through medium- and long-term foreign private borrowing											
Net credit flow	48.2	41.4	27.4	18.9	12.7	8.0	2.2	8.4	4.5	7.4	10.2
Interest paid	-31.2	-37.3	-35.5	-40.4	-39.4	-34.9	-34.0	-39.7	-32.7	-29.6	-34.1
Net transfer	17.0	4.1	-8.1	-21.5	-26.6	-26.9	-31.7	-31.3	-28.2	-22.2	-23.9
Transfer through short-term borrowing and domestic outflows d/											
Net transfer	-13.7	-29.1	-22.1	-13.8	-13.1	-3.4	-7.1	-15.2	-8.8	-7.3	13.6
Transfer through private grants (net) e/	1.8	1.7	2.1	2.6	2.9	3.8	4.1	4.9	3.5	3.8	4.0
Transfer through official flows											
Official transfers (grants)	12.0	9.3	10.2	10.9	11.6	11.2	12.6	13.1	13.9	28.6	31.7
Net official credits f/	29.8	32.6	30.0	24.8	19.1	19.0	17.2	16.8	20.7	21.0	22.3
Interest paid	-6.8	-8.2	-9.6	-11.1	-12.7	-15.6	-16.8	-18.3	-18.6	-20.4	-23.7
Net transfer	35.0	33.7	30.7	24.5	17.9	14.6	13.1	11.6	16.0	29.2	30.3
Total net transfer (financial basis)	39.7	7.8	-0.5	-10.6	-19.4	-13.0	-20.4	-23.9	-10.7	9.6	32.5
Memo items:											
Use of official reserves g/	3.0	19.2	-6.4	-18.7	2.2	8.7	-13.1	-8.2	-18.3	-35.6	-45.6
Total net transfer (expenditure basis)	42.7	26.9	-7.0	-29.3	-17.2	-4.3	-33.5	-32.1	-29.0	-26.0	-13.1

(Source and footnotes on following page)

(Source and footnotes to table 1)

Source: Department of Economic and Social Development of the United Nations Secretariat, based on data of IMF and the World Bank, and United Nations Secretariat estimates.

a/ Sample of 93 countries. It excludes the surplus energy exporters (Brunei Darussalam, Iran (Islamic Republic of), Iraq, Kuwait, Libyan Arab Jamahiriya, Qatar, Saudi Arabia and the United Arab Emirates) and recent surplus countries (Hong Kong, Singapore and Taiwan province of China).

b/ Preliminary estimate.

c/ Direct investment is net of reinvested earnings (cash flow approach).

d/ Calculated as a residual (including short-term trade financing, normal and unusual outflows ("capital flight"), arrears of interest due and other flows captured in balance-of-payments data as errors and omissions and presumed to be financial flows).

e/ Private grants include net flow of gifts from overseas residents (excluding workers' remittances) and grants by non-governmental organizations.

f/ Official credits include use of IMF credit; interest includes IMF charges.

g/ Additions to reserves are shown as negative numbers.

Table 2. Net transfer of financial resources of Latin America and the Caribbean a/

(Billions of United States dollars)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991 b/
Transfer through direct investment c/											
Net investment flow	4.9	3.1	1.9	1.9	2.5	1.1	3.6	5.5	4.4	5.2	8.0
Net dividends and other income	-2.6	-2.4	-2.3	-2.4	-2.5	-2.9	-2.9	-3.5	-4.9	-5.0	-4.3
Net transfer	2.3	0.6	-0.4	-0.5	0.1	-1.8	0.7	2.0	-0.5	0.2	3.7
Transfer through medium- and long-term foreign private borrowing											
Net credit flow	33.4	24.2	11.7	7.3	2.1	-1.1	1.5	-0.3	-2.3	1.6	0.8
Interest paid	-20.2	-25.0	-23.4	-26.3	-25.6	-21.3	-20.3	-23.9	-15.7	-12.9	-15.7
Net transfer	13.2	-0.8	-11.8	-19.0	-12.5	-22.4	-18.8	-24.2	-18.0	-11.4	-14.9
Transfer through short-term borrowing and domestic outflows d/											
Net transfer	-8.0	-24.2	-18.8	-11.5	-11.8	-1.7	0.8	-8.2	-9.9	-9.0	16.4
Transfer through private grants (net) e/	0.6	0.4	0.5	0.7	0.9	1.0	1.1	1.5	1.5	1.6	1.6
Transfer through official flows											
Official transfers (grants)	1.1	0.7	0.9	1.2	2.1	1.4	1.9	1.9	2.0	3.0	3.4
Net official credits f/	5.7	9.7	7.5	9.5	6.1	6.6	4.1	4.3	4.3	7.0	2.3
Interest paid	-2.1	-2.4	-2.8	-3.3	-4.0	-5.1	-5.6	-6.0	-6.1	-7.1	-8.1
Net transfer	4.7	7.9	5.7	7.3	4.2	2.9	0.4	0.3	0.2	3.0	-2.4
Total net transfer (financial basis)	12.8	-16.1	-24.8	-22.9	-30.2	-22.0	-15.9	-28.6	-26.7	-15.6	4.4
Memo items:											
Use of official reserves g/	1.5	19.7	-0.7	-12.2	-0.6	7.9	-3.4	6.6	-2.8	-14.1	-17.6
Total net transfer (expenditure basis)	14.3	3.7	-25.5	-35.2	-30.8	-14.1	-19.3	-22.0	-29.5	-29.7	-13.2

Source: Department of Economic and Social Development of the United Nations Secretariat, based on data of IMF and the World Bank, and United Nations Secretariat estimates.

a/ Sample of 25 countries and territories.

(For remaining notes, see table 1.)

Table 3. Net transfer of financial resources of Africa a/

(Billions of United States dollars)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991 b/
Transfer through direct investment c/											
Net investment flow	2.1	1.5	1.4	1.2	2.0	1.4	1.9	1.9	3.6	1.5	1.6
Net dividends and other income	-2.6	-2.2	-1.6	-1.4	-1.4	-1.2	-2.1	-1.7	-1.1	-1.2	-1.3
Net transfer	-0.5	-0.8	-0.2	-0.2	0.6	0.2	-0.1	0.2	2.5	0.4	0.3
Transfer through medium- and long-term foreign private borrowing											
Net credit flow	5.0	6.6	3.5	1.9	1.1	2.5	2.4	3.0	0.1	-0.7	0.4
Interest paid	-3.8	-4.1	-3.9	-4.1	-4.1	-3.4	-3.0	-3.8	-4.1	-3.8	-4.5
Net transfer	1.2	2.6	-0.4	-2.2	-3.1	-0.9	-0.6	-0.8	-4.0	-4.4	-4.1
Transfer through short-term borrowing and domestic outflows d/											
Net transfer	-0.4	-0.8	-1.7	-3.5	-3.6	-1.3	-7.0	-4.8	-4.9	-16.1	-9.3
Transfer through private grants (net) e/	0.2	0.2	0.3	0.5	0.9	1.1	0.9	1.0	1.0	0.9	1.0
Transfer through official flows											
Official transfers (grants)	3.4	2.9	3.9	4.2	4.8	5.1	6.1	6.2	7.3	20.2	11.5
Net official credits f/	9.1	9.3	8.5	6.8	5.0	5.3	6.3	6.5	7.0	4.9	6.6
Interest paid	-1.7	-1.9	-2.2	-2.6	-2.9	-3.6	-3.2	-4.3	-4.5	-4.7	-5.1
Net transfer	10.8	10.3	10.1	8.3	6.9	6.7	9.2	8.4	9.8	20.4	13.0
Total net transfer (financial basis)	11.3	11.6	8.1	2.9	1.7	5.7	2.4	4.0	4.4	1.1	0.9
Memo items:											
Use of official reserves g/	4.2	3.0	0.3	-0.3	-2.3	1.0	-1.5	0.0	0.5	-5.8	-2.1
Total net transfer (expenditure basis)	15.5	14.7	8.4	2.6	-0.6	6.8	1.0	4.0	3.8	-4.7	-1.2

Source: Department of Economic and Social Development of the United Nations Secretariat, based on data of IMF and the World Bank, and United Nations Secretariat estimates.

a/ Sample of 44 countries.

(For remaining notes, see table 1.)

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Table 4. Net transfer of financial resources of sub-Saharan Africa a/

(Billions of United States dollars)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991 b/
Transfer through direct investment c/											
Net investment flow	0.4	0.4	0.4	0.1	0.2	0.0	0.3	0.2	0.2	0.0	0.5
Net dividends and other income	-0.8	-0.7	-0.7	-0.7	-0.7	-0.6	-0.9	-0.7	-0.9	-1.0	-1.0
Net transfer	-0.4	-0.3	-0.3	-0.6	-0.5	-0.7	-0.6	-0.5	-0.6	-0.9	-0.4
Transfer through medium- and long-term foreign private borrowing											
Net credit flow	1.8	2.4	1.0	0.9	0.5	0.7	0.4	0.9	0.5	0.4	0.4
Interest paid	-1.1	-1.2	-1.1	-1.1	-1.1	-1.1	-0.9	-0.8	-0.8	-0.6	-0.6
Net transfer	0.6	1.2	-0.1	-0.2	-0.6	-0.4	-0.5	-0.1	-0.2	-0.2	-0.2
Transfer through short-term borrowing and domestic outflows d/											
Net transfer	0.8	-0.5	-0.9	-2.4	-0.5	0.7	-0.2	-0.4	-1.4	-1.4	-1.6
Transfer through private grants (net) e/	0.1	0.2	0.2	0.5	0.7	0.6	0.7	0.9	0.7	0.8	0.8
Transfer through official flows											
Official transfers (grants)	3.2	2.8	2.9	3.0	3.5	3.9	4.9	5.1	5.8	5.7	5.9
Net official credits f/	5.6	5.1	5.0	3.5	2.8	3.4	4.3	3.9	3.8	4.1	4.7
Interest paid	-0.8	-0.9	-1.0	-1.2	-1.3	-1.7	-1.6	-1.7	-1.6	-1.6	-1.8
Net transfer	8.0	7.0	6.9	5.3	5.0	5.6	7.6	7.3	8.0	8.3	8.8
Total net transfer (financial basis)	9.2	7.5	5.8	2.6	4.0	5.8	7.0	7.4	6.4	6.5	7.4
Memo items:											
Use of official reserves g/	-0.1	-0.1	-0.4	-0.3	-0.8	-0.5	-0.7	-0.6	0.1	0.5	-0.5
Total net transfer (expenditure basis)	9.1	7.4	5.4	2.3	3.1	5.3	6.3	6.7	6.5	7.0	6.9

Source: Department of Economic and Social Development of the United Nations Secretariat, based on data of IMF and the World Bank, and United Nations Secretariat estimates.

a/ Sample of 38 countries, excluding Nigeria.

(For remaining notes, see table 1.)

Table 5. Net transfer of financial resources of developing Asia a/

(Billions of United States dollars)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991 b/
Transfer through direct investment c/											
Net investment flow	2.6	2.5	2.8	3.0	2.8	3.2	3.7	6.8	8.1	9.6	9.2
Net dividends and other income	-5.0	-5.1	-5.4	-4.8	-4.3	-3.1	-3.4	-3.7	-4.6	-5.3	-5.8
Net transfer	-2.4	-2.5	-2.6	-1.8	-1.4	0.1	0.3	3.1	3.5	4.3	3.4
Transfer through medium- and long-term foreign private borrowing											
Net credit flow	9.6	11.3	12.2	9.9	10.3	6.4	-3.1	1.8	5.0	6.1	6.8
Interest paid	-6.0	-6.9	-7.0	-7.9	-8.4	-8.7	-9.4	-10.4	-11.5	-10.9	-11.9
Net transfer	3.6	4.4	5.2	2.0	2.0	-2.3	-12.5	-8.7	-6.4	-4.8	-5.2
Transfer through short-term borrowing and domestic outflows d/											
Net transfer	-5.2	-3.8	-2.9	0.5	2.3	-0.4	1.4	3.9	5.6	10.1	14.2
Transfer through private grants (net) e/	0.6	0.8	1.0	1.0	0.9	1.5	1.8	2.0	0.6	0.8	2.0
Transfer through official flows											
Official transfers (grants)	7.4	5.6	5.2	5.3	4.6	4.6	4.3	4.6	4.2	4.3	4.2
Net official credits f/	13.5	12.5	14.1	7.8	8.1	7.3	7.8	7.7	11.8	10.3	15.3
Interest paid	-2.4	-3.1	-3.8	-4.3	-4.8	-5.9	-6.7	-6.9	-6.9	-7.6	-8.7
Net transfer	18.5	14.9	15.6	8.9	7.9	5.9	5.4	5.4	9.2	7.0	10.8
Total net transfer (financial basis)	15.2	13.8	16.3	10.6	11.6	4.8	-3.4	5.7	12.5	17.5	25.2
Memo items:											
Use of official reserves g/	-1.4	-3.9	-5.6	-5.8	4.8	0.7	-8.3	-12.3	-10.0	-12.5	-10.6
Total net transfer (expenditure basis)	13.7	9.9	10.7	4.7	16.4	5.6	-11.7	-6.6	2.5	4.9	14.6

Source: Department of Economic and Social Development of the United Nations Secretariat, based on data of IMF and the World Bank, and United Nations Secretariat estimates.

a/ Sample of 22 countries, including China and India. Hong Kong, Singapore and Taiwan province of China are not included. Also excluded are surplus energy exporters, namely Brunei Darussalam, Iran (Islamic Republic of), Iraq, Kuwait, Qatar, Saudi Arabia and the United Arab Emirates.

(For remaining notes, see table 1.)

Table 6. Net transfer of financial resources in 15 heavily indebted countries a/

(Billions of United States dollars)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991 b/
Transfer through direct investment c/											
Net investment flow	5.4	3.5	2.2	2.0	3.1	1.4	4.1	6.3	6.5	6.1	9.1
Net dividends and other income	-3.5	-3.2	-2.7	-2.5	-2.8	-3.1	-3.5	-3.9	-4.9	-5.0	-4.3
Net transfer	1.9	0.2	-0.5	-0.5	0.3	-1.7	0.6	2.5	1.6	1.1	4.8
Transfer through medium- and long-term foreign private borrowing											
Net credit flow	38.0	29.1	13.9	7.7	2.4	-1.7	1.4	0.0	-1.9	2.4	0.4
Interest paid	-22.9	-28.0	-26.0	-30.0	-28.4	-23.7	-22.6	-27.0	-19.0	-15.8	-19.4
Net transfer	15.1	1.2	-12.1	-22.3	-26.0	-25.3	-21.2	-27.0	-20.9	-13.3	-19.0
Transfer through short-term borrowing and domestic outflows d/											
Net transfer	-10.2	-23.8	-19.1	-11.7	-15.9	-2.7	-3.8	-10.1	-12.3	-7.0	23.5
Transfer through private grants (net) e/	0.8	0.6	0.7	0.9	1.0	1.1	1.3	1.4	1.6	1.9	2.1
Transfer through official flows											
Official transfers (grants)	1.1	0.7	0.7	0.8	1.3	0.9	1.2	1.3	1.5	2.7	2.5
Net official credits f/	7.0	10.3	8.8	9.7	5.1	6.3	4.3	4.0	4.6	7.5	5.1
Interest paid	-2.5	-3.0	-3.4	-4.2	-5.0	-6.3	-7.1	-7.9	-8.2	-9.4	-10.5
Net transfer	5.5	7.9	6.2	6.3	1.5	0.9	-1.5	-2.5	-2.1	0.8	-3.0
Total net transfer (financial basis)	13.2	-13.9	-24.8	-27.4	-39.1	-27.8	-24.7	-35.8	-32.1	-16.5	8.4
Memo items:											
Use of official reserves g/	7.2	23.3	1.0	-13.2	-1.5	5.8	-3.7	4.7	-5.6	-18.7	-19.9
Total net transfer (expenditure basis)	20.4	9.4	-23.8	-40.6	-40.6	-22.1	-28.4	-31.1	-37.7	-35.2	-11.5

Source: Department of Economic and Social Development of the United Nations Secretariat, based on data of IMF and the World Bank, and United Nations Secretariat estimates.

a/ Argentina, Bolivia, Brazil, Chile, Colombia, Côte d'Ivoire, Ecuador, Mexico, Morocco, Nigeria, Peru, the Philippines, Uruguay, Venezuela and Yugoslavia.

(For remaining notes, see table 1.)

Table 7. Developing countries: terms of trade loss or gain

(Annual change in billions of United States dollars)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991 a/	1992 b/
Developing countries c/	37.8	-13.3	-8.1	11.9	-8.8	-109.2	-5.3	-7.3	19.7	3.3	-28.8	-18.5
Latin America and Caribbean	0.3	-3.5	-0.5	1.0	-3.1	-17.0	-0.8	1.3	3.0	0.9	-7.6	-0.5
Africa	9.3	-0.7	0.2	1.8	-0.8	-22.3	-3.7	-5.5	4.3	1.5	-5.6	-2.0
South and East Asia d/	2.5	5.0	2.1	8.1	-3.3	-30.7	0.8	6.9	5.2	-8.4	-2.5	-2.0
West Asia	26.7	-4.1	-10.9	1.0	-1.9	-42.5	0.3	-11.0	8.0	12.1	-13.7	-11.0
Mediterranean	-1.1	0.0	1.1	0.1	0.2	3.4	-1.8	1.0	-0.8	-2.7	0.6	-3.0

Source: Department of Economic and Social Development of the United Nations Secretariat.

Note: Gains or losses in the given year are calculated as $M (1 - p^m) - X (1 - p^x)$ where M and X are import and export values of the year before and p^m and p^x are, respectively, the index of import and export prices of the given year, with the year before = 1.00.

a/ Preliminary.

b/ Forecast, rounded to the nearest half billion.

c/ Calculated as the sum of the estimates by subregion.

d/ Includes China.

Notes

1/ The recent improvement in the financial transfer is related to recent developments on the debt front, in the same way as the onset of the deterioration of the net transfer situation was closely linked with the beginning of the debt crisis. The present report is thus complementary to the report of the Secretary-General on recent experience under the international debt strategy (A/47/396), being presented to the General Assembly at its forty-seventh session.

2/ For the definition of capital-importing developing countries, refer to the notes to table 1.

3/ See World Economic Survey 1985 (United Nations publication, Sales No. E.85.II.C.1), chap. V.

4/ See World Economic Survey 1989 (United Nations publication, Sales No. E.89.II.C.1), chaps. IV and VIII; World Economic Survey 1990 (United Nations publication, Sales No. E.90.II.C.1), chap. IV; A/45/487; World Economic Survey 1991 (United Nations publication, Sales No. E.91.II.C.1, chap. IV; and World Economic Survey 1992 (United Nations publication, Sales No. E.92.II.C.1), chap. IV.

5/ For the 15 heavily indebted countries covered in table 6, the level of official reserves increased by 50 per cent in 1990 and by 32 per cent in 1991. Foreign reserves almost tripled in Argentina from 1989 to 1990 and in 1991 they further increased by 60 per cent. Brazil's reserves doubled in six months between the end of 1991 and mid-1992. Chile's reserves doubled from 1989 to 1991. Mexico's reserves almost doubled from 1990 to 1991. Also Colombia, Peru and Venezuela had rapid and large increases in their foreign reserves (basic data from International Monetary Fund, International Financial Statistics, August 1992).

6/ The question has even been raised about an emerging exchange rate "Dutch disease" in Latin America, in those countries in which inflation control is being helped by exchange rate appreciation, as Argentina since 1989, Mexico since late 1990 and Chile in 1991. Morgan Guarantee Trust Company, World financial markets, May/June 1992, p. 21.

7/ The Central Bank of Brazil, during the first half of 1992, with reserves increasing very rapidly, introduced a few measures aiming at reducing the incentives to the inflow of foreign finance. Peru, in March 1992, tried to obtain from its main banks a cut in interest rates in an attempt to depress at that point in time the overvalued local currency.

8/ Approximately corresponding to the capital-importing countries.

9/ The term trade loss of countries other than West Asia was about $15 billion.